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AGRICULTURAL TRADE PROPOSALS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
DOMESTIC AND FOREIGN MARKETING
AND PRODUCT PROMOTION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

S. 310

A BILL TO AMEND THE EXPORT ADMINISTRATION ACT OF 1979 TO PROMOTE THE EXPORT OF UNITED STATES AGRICULTURAL COMMODITIES AND THE PRODUCTS THEREOF, AND FOR OTHER PURPOSES (AGRICULTURAL EXPORT ENHANCEMENT ACT OF 1987)

AND

S. 512

A BILL TO PROMOTE THE EXPORT OF UNITED STATES AGRICULTURAL COMMODITIES AND THE PRODUCTS THEREOF, AND FOR OTHER PURPOSES (AGRICULTURAL COMPETITIVENESS AND TRADE ACT OF 1987)

MARCH 10 AND 12, 1987

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AGRICULTURAL TRADE PROPOSALS

TUESDAY, MARCH 10, 1987

U.S. SENATE, SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:45 a.m., in room SR-332, Russell Senate Office Building, Hon. David H. Pryor (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Pryor, Leahy, Daschle, Melcher, Conrad, Cochran, Wilson, and Boschwitz.

Also present: Senators Grassley and Baucus.

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR. The meeting will come to order at this time. I am going to encourage our colleagues not to make a lot of speeches this morning. They are certainly welcome to make a very short opening statement, but first before we proceed on the substance of the omnibus trade legislation, I would like to call on Senator John Melcher of Montana for a short statement. Senator Melcher.

Senator MELCHER. Thank you very much, Mr. Chairman. This morning this committee meets for the first time since the shocking passing of the second most senior Democratic member of the committee, Senator Zorinksy. Ed Zorinsky was one of the truly dedicated, hardworking people in the Senate as a spokesman, and an advocate, and a strong lawyer for American agriculture. His untimely passing leaves a void here on this committee and in the Senate that we all very much regret. Not only do we mourn for his friendship and his dedication to his work here and on the Senate floor, we also mourn for his absence in the continuing fight and the continuous battle we have of trying to promote better policy for American agricultural producers and American agribusiness.

So with deep regret and a deep sense of loss, I now suggest that we have a moment of silence in memory of Ed Zorinsky.

Senator PRYOR. Thank you, John. Senator Grassley, you come and take your seat here. We want you to participate with us.

Senator GRASSLEY. I am not a member of the committee.

Senator PRYOR. I don't care if you are a member or not. We want you to participate. We need all the help we can get. We are also asking our very good friend from the Finance Committee, and someone who has been involved in all of the issues relating to agricultural trade, Senator Baucus of Montana, to participate fully with us as if a member of this committee.

I think now, if I might, I would call on our chairman of the full committee, Senator Leahy.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Thank you, Mr. Chairman.[1] I also want to emphasize that having Senator Grassley and Senator Baucus here is beneficial to all of us. They are both men of proven expertise in this area, and we are fortunate to have their experience. Before I start my statement, I also want to add to what my good friend, John Melcher, has said. I served on this committee for 12 years, and 10 of those 12 years Ed Zorinsky was a member. In fact, we sat side by side during those 10 years. Mr. Chairman, this is the first Senate Agriculture Committee meeting I can think of at which Ed Zorinsky has not been present. He had by far the best attendance of any member of this committee. During the time of the 1985 farm bill, he represented all of us as the ranking member of this committee, where he worked tirelessly day after day after day. In fact, he made it possible for others, myself included, to be able to take care of our other committee assignments because no matter what issue we had Ed was there to cover it for us, to be there, to let us know when our matters came up, and to call us in.

I was out in Omaha, Nebraska with Ed just a few weeks ago holding hearings. I remember it very well because I arrived at the airport expecting all kinds of cold weather, and there was Ed standing in shirt-sleeves. It was almost 70 degrees, and unseasonably warm, at the airport. I walked down the gate from the plane, and Ed said, "Welcome to Florida. We are glad to have you here."

We went into Omaha, Nebraska, and we had one of the best hearings I think the committee has ever had. Ed's charisma allowed him to have the whole audience in stitches at one moment, and at the next, enabled him to speak in the greatest detail. He was a leader in rural matters, in soil conservation, in farm credit, and he also did what Senators are supposed to do—he fought like mad for his own State.

I have spoken with Senator Lugar, the ranking member of this committee. In our meeting tomorrow, we will recess, after the Farmers Home testimony, and then come back to a special session of this committee. At that time Senator Lugar and I will introduce a resolution on behalf of the committee commending our friend Ed Zorinsky. I hope that all members of the committee will be able to be here at that time tomorrow. This resolution and words of commendation for our friend and colleague is the very least we can do. But it does not even begin to express how all of us feel for Cece, Mary, Jeff, and Susan and all his other friends and relatives. Mr. Chairman, I was pleased to hear the kind words of the Senator from Montana. He expressed the feelings of so many of us.

Mr. Chairman, I want to thank you for holding this hearing on agricultural trade legislation. This hearing and those that follow are going to help our committee build a record for action on legislation that will make American agriculture more competitive. It will

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[1] See p. 93 for the prepared statement of Senator Leahy.

really be one of the most significant things this committee will do this spring because our committee, the whole Senate, in fact, is going to act quickly.

During the last 5 years our American farm exports declined by more than $16 billion. For every $1 billion decline in our agricultural exports, 3,000 families lose their farms, and 35,000 farm workers lose their jobs. For the first time in 25 years, we actually imported more food than we exported during a 3-month period last year.

Now, this crisis in international agricultural trade is at the very center of the entire debate on competitiveness and trade. It is no coincidence that agricultural issues were nearly the cause of a trade war between the United States and the European Community. Barriers to free trade in agriculture threaten U.S. agriculture. They also jeopardize the global trading system.

The Agriculture Committee is in a unique position to act. We have a separate title in the Senate trade bill. It is one that I intend to fill with what I hope will be a bipartisan package; one that the whole Senate can rally around, not just members of the Finance Committee.

I think we have to act in the Senate because the administration has dragged its feet. I do not think that the President's trade initiative really responds to the needs of American farmers. It only pays lip service to agricultural trade issues. It seeks to salvage whatever meager support the administration still has in farm communities. But it gets worse. At the same time that the administration has created the pretense of offering an agricultural trade initiative, the President's budget proposes a 40 percent cut in export credit programs and nearly a 20 percent cut in the very successful Targeted Export Assistance Program.

The Senate leadership has told us to get agricultural trade legislation out by May 1, and we are going to do it. But let me mention that our bill, S. 512, is only a start. S. 512 is cosponsored by you, Mr. Chairman, by Senators Cochran, Melcher and Grassley. Other Senators, including Senators Baucus, Boren, Harkin, Melcher, Pryor, and Grassley have bills of their own. Now I want all these bills to get a fair hearing, and they will. I am perfectly willing to look at those bills and combine the best of all of them because this is not a case in which I favor any particular bill. I want the best piece of legislation we can get.

The agricultural trade initiative provides instructions to the administration to aggressively negotiate the end of barriers to American agricultural trade in the upcoming round of talks on the General Agreement on Tariffs and Trade. Those trade barriers have cost American farmers billions of dollars in lost markets last year. In Japan alone, more than $1 billion has been lost. These GATT negotiations are going to go on for years. We cannot wait that long. So we are going to ask that the USDA budget for export promotion be tripled. We must try to bring our support up to the level of most of our major competitors.

The U.S. spends less per billion dollars of exports in market development than Australia, Denmark, New Zealand, or South Africa. At least 50 percent of the new funds will be used to hold trade shows in newly developing markets. Right now we spend

about 50 percent of our promotional resources on existing markets in Western Europe and Japan. I want to see us go into those developing markets. We are going to make sure that the Foreign Agricultural Service is fully staffed, and that is similar, John, to a provision you have in your bill. We are going to require agricultural attachés to spend more time developing markets for U.S. agricultural exports and less time simply filing reports.

This is only a start, and we have to seriously consider making the Export Enhancement Program an across-the-board effort. The targeted nature of EEP seriously threatens the program's effectiveness. Our overall wheat exports dropped by more than 17 million metric tons last year. The reason, of course, is that European and other countries subsidize exports to nations and we do not.

I have asked the General Accounting Office to report to me shortly on the effects of removing the targeting mechanism in EEP and to tell me what that cost would be. We also have to improve the short term credit guarantee program, GSM-102. We are investigating the possibility of providing oil denominated financing under GSM-02. That may increase interest among oil exporting nations in buying our agricultural exports.

I hope the committee will also consider a proposal I am developing to clarify GSM-102 financing and make it more flexible. If we had a "flex-pool," GSM-102 credit would be available to countries that want to buy American exports, but have already exhausted their allocated financing for specific commodities.

The 1985 farm bill directed the administration to develop barter or countertrade arrangements. The administration has not had any initiatives in this area. Thirty-three countries are now successfully engaged in countertrade. We have not even started our pilot programs, and that ought be corrected. So we have a unique opportunity, Mr. Chairman.

One thing that we could always depend upon in the United States was the export of agricultural products. It is a renewable resource. It is a thing we do very well. It stands out in all the ledger sheets until the last couple of years. If we all work together we could turn that around, and I applaud you for having these hearings. I think it is very important, and it looks like we are going to make our May 1 deadline.

Senator PRYOR. Thank you, Mr. Chairman. I would like to call on Senator Grassley at this time, who has other commitments. Senator Grassley.

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Mr. Chairman, I am here to say that I am a strong supporter of Senator Leahy's bill. I am also here to say that because this is a problem that takes a bipartisan solution to resolve, and I think we are going to have a bipartisan solution. Since I perceive agriculture as being a key to the reversing of our trade deficit, it is very appropriate that this committee play the dominant role as exhibited by Senator Leahy's bill and your holding this hearing. I want to thank you. It is not just an agricultural problem, and by solving the trade problem for agriculture, we are

not just helping farmers, because for every billion dollars in foreign agricultural trade we save 35,000 farm jobs, and 60,000 nonfarm jobs.[1]

We all agree what the problem is, and with all the generalities that could be stated here, I would just be adding to those. So I am here for a very specific reason, and it is to bring attention to a bill that I have introduced, S. 399. This bill has the cosponsorship of people like Senator Baucus and you, Mr. Chairman. By the way, S. 399 passed the House last year in their omnibus bill, and without a doubt, I believe with Senator Danforth's cosponsorship with me, that you would have had support for it being in a trade bill last year if we had gone that far with it. It deals with the antidumping, countervailing duty, investigations of processed agricultural products. It basically deals with all products, but it stems specifically from the International Trade Commission's tortured reasoning in which in a 3–2 vote a year and a half ago, they agreed for countervailing duties for live pork coming into the country. But by a 3–2 ruling voted against duties on fresh chilled pork coming into our country.

My bill changes the law, and would make possible the application of countervailing duties whenever there was dumping of a subsidized agricultural product coming into this country in which there is a single continuous line of production. The 1979 Trade Act, put special emphasis upon what is, and I quote, "the special nature of agriculture." I hope that this committee will not only give attention to the massive omnibus approach of Senator Leahy, but also look to the inclusion of S. 399, not only to help the pork producers in the sense that my State is the leading pork producing State in the Nation, but all processed agricultural products. So that they will get a fair and rational decision out of the International Trade Commission, one that is consistent with the 1979 act on the special nature of agriculture, and one that will help in a small way to turn around the major problem that Senator Leahy's bill attempts to do.

Mr. Chairman, I would like to request permission to submit an explanation of my bill, at this point in the record.

[See page 96 for an explanation of Senator Grassley's bill.]

Senator PRYOR. Without objection.

Senator GRASSLEY. Thank you Mr. Chairman. I have no further comments at this point.

Senator PRYOR. Senator Grassley, as we know, your bill, I believe, has been referred now to the Finance Committee of the Senate, and as a cosponsor of your legislation, I would very much hope that we could make this a part of the agriculture title which our committee will ultimately recommend to the Senate Finance Committee. I think it could be a key provision of that committee, I applaud you for bringing it to our attention, and I am grateful to be allowed to be a cosponsor of that legislation.

Senator Melcher.

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[1] See p. 98 for the prepared statement of Senator Grassley.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. Mr. Chairman, the emergency we are in with the rising, ever-increasing amounts of surplus commodities has to be addressed as quickly as possible for several reasons. As long as the surplus commodities overhang the market, the cash market is going to continue to sag. That makes the Federal loss out of the Treasury higher for deficiency payments.

I think we have some steps we can take almost immediately in this committee. One of them has to do with the Foreign Agriculture Service. We know that they are understaffed, and we know that they are handicapped by not being able to contract for additional services right in the particular country where the Foreign Agriculture Service people are stationed. The type of legislation that is needed—it was January 6 that I introduced S. 125—has now become part of the trade bill that Senator Bentsen is moving. It has also become part of S. 659 which I introduced on March 6, cosponsored by yourself, Mr. Chairman, and also Senator Leahy and Senator Daschle.

Whatever we do, we want to get that out quickly. The Foreign Agriculture Service is going to need some time for them to utilize the provisions in it. In regard to S. 659, we will have a hearing on that this afternoon in the counterpart subcommittee, to see whether or not we can get some steam built behind it. We hope that the subcommittee will report it to the full committee and have it available for action tomorrow. That bill deals not only with the Foreign Agriculture Service, but also deals with the broader question of sending missions to a number of countries. These missions would have representatives of State and Agriculture Departments and also the commodity groups from the United States, and the private voluntary organizations and cooperatives from here who would meet with their counterparts in these various countries to find the most expeditious means of utilizing our surplus commodities and the broad range of programs that we have available under our law.

The bill also straightens out a number of requirements for private voluntary organizations and cooperatives so that they can use surplus commodities in the broadest sense in the countries in which they deal to develop not only a good utilization of our surplus commodities now, but also to build trade opportunities for the future.

It is this type of action that we can take immediately, and I think we should. Then we can move on to whatever else we can do this spring to broaden the use of surplus commodities from the United States. So, Mr. Chairman, I am especially pleased that we are here today to receive testimony and start the ball rolling on this whole array of opportunities.

Senator PRYOR. Thank you Senator Melcher.

Senator Baucus.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman. I commend you very much for holding these hearings. It is clear that our country is

probably in the economic fight of its life. Our country has become drastically internationalized in the last decade, and we Americans have to be much more competitive if our standard of living is going to continue to rise. Certainly agriculture is a key, if not the key, ingredient in solving our trade deficit and increasing and enhancing America's competitive position in the world.[1]

As you all know, Mr. Chairman, as a distinguished member of the Finance Committee, you were involved in helping develop a trade bill. The House is developing a trade bill, and certainly a central component of that is a very, very aggressive agricultural trade component. Our farm exports have declined dramatically since 1980. We have to regain those exports. America has a large comparative advantage over the rest of the world in the production of agricultural products. We all know that. We should take advantage of that.

Second, we have to fight fire with fire in order to force our competitors, the EEC, Canada, Australia, and other countries, to begin to play ball. They have taken advantage of us with very aggressive agricultural export subsidies. Now, we have to fight fire with fire.

It is my view, therefore, that this Congress should develop an agricultural trade component of the omnibus trade bill which very aggressively promotes American agricultural exports, not only because we have a natural comparative advantage, but also to force the EEC or other competing countries to begin to back off from their export subsidies on agricultural products. The Uruguay Round, I hope, is a forum in which producing countries of the world begin to cooperate more, but that is a long way off. It is 5 to 8 years away even if we can reach a satisfactory agreement with our agricultural competitors.

So I suggest, Mr. Chairman, that we be much more aggressive than we have been, and I must tell you as a member of the Finance Committee that we are relying upon this committee to develop that trade package. You have the expertise. You have been in the forefront. My senior colleague from Montana has very definitely been in the forefront in trying to address the tragic inequity between surpluses in the world and famine in other parts of the world.

It is part of the problem that we have to resolve. We have a moral responsibility. We also have an economic imperative to begin to address that. And my senior colleague from Montana has been in the forefront on this issue, and I compliment him for that.

You, Mr. Chairman, have been very aggressive, and I want to thank you, too. So I just suggest that we get on with it. I have a bill, S. 310, which helps encourage us to become more aggressive. Basically, the bill mandates that the EEP be expanded into an across-the-board program, that we tighten up the contractual sanctity agreements to foreign countries, and further develop markets overseas. I sense a very strong collegiality on a solution here. I sense a bipartisanship, and I frankly think that that collegiality and that bipartisanship is necessary if we are going to solve this.

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[1] See p. 99 for the prepared statement of Senator Baucus.

Ben Franklin once said either we hang together or we will all hang separately—I suggest that we stick together on this. I thank you very much for what you are doing.

Senator PRYOR. Thank you, Senator Baucus. I would like to publicly commend Senator Baucus for his work on the Finance Committee. We came to the Senate together in 1979. He has been talking about this trade issue for a very long time, and has been on the cutting edge of the issue of trade and what is happening to this country in our imbalance, and it seems like many of those things you have said in the past are now coming true. I have looked to you for guidance many times on trade issues, and I want to thank you for participating, and once again urge you to participate throughout these hearings.

There will be additional hearings on Thursday morning, March 12, where we will hear additional experts in the area, and we certainly invite you back to that and other hearings that we have. We have two distinguished Senators from Montana here today who have been on the cutting edge of this issue.

Let me state also that I have just returned from a fascinating trip, less than 36 hours ago. I have jet lag, so if I make more mistakes than usual, I hope my colleagues will give me a little leeway there. But this was a trip to the Soviet Union where we took 25 citizens from the State of Arkansas, leaders in agriculture and in the industrial sector. I came away from the Soviet Union with sort of a perception—it was my second trip there. I went once before in 1979—but I came away from the Soviet Union with the firm belief, more so than even in the past, that today the Soviets have an enormous admiration for our technology. They admire our ability to produce, our industrialization. They also definitely admire our military capabilities, but what they admire more and envy most is our ability to produce food and fiber. That is where they really envy the United States of America.

I am one who believes that through communication and through a building of bridges and establishing trust that we have some possibilities of trade with the Soviet Union and the Eastern Bloc countries that we can really build on. I think right now is the time to attempt to open those avenues up. Further down the line, I would like to make a few suggestions there, but I will not take the committee's time with that at this time.

We have as our first witness this morning, Tom Kay. Tom, we would like for you to come forward. We welcome you to the committee this morning. You are an old and good friend of most of the members of this committee, and I want to stress one or two points for the record.

I think Senator Melcher has brought this fact to our attention as has Senator Leahy in really zeroing in on part of the problem that we are faced with: The enactment of the Food Security Act of 1985 has mandated a dozen new export programs. However, there has been no provision for additional funding for the people to carry these programs out. I think we need to hear a little about that, Mr. Kay.

The second fact I would like to submit is that currently the Foreign Agriculture Service has responsibility for $8 billion worth of export programs with an operating budget which represents less

than 1 percent of the total value of those programs. I think we are sensitive to those figures and to those facts. The final fact for the record: while the workload of FAS has increased significantly, especially under the new agriculture bill, the FAS staff resources to carry out those additional responsibilities have declined approximately 8 percent since fiscal year 1959. I think we are very sensitive to those programs, Mr. Kay.

We welcome you this morning and look forward to your statement. I hope that you might condense your statement—we all have a copy of it—to not exceed 10 minutes. If you want to summarize that statement and open yourself up for questions, we would appreciate it.

STATEMENT OF THOMAS O. KAY, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. KAY. Thank you, Mr. Chairman. It is always a pleasure to be here with the Senate Agriculture Committee.[1] I extend my condolences to all of you over the loss of Senator Zorinsky. He was a friend and a real supporter of American agriculture and the Foreign Agricultural Service. It brought back some memories to me when it was my pleasure to work here in the United States Senate. I remember the day that my boss Jim Allen died, and I can imagine what the staff of Senator Zorinsky is experiencing right now, and my sympathy goes out to them as well. And I know we shall miss him.

Senator PRYOR. Let me interject there, if I might. Two of our colleagues this morning have paid tribute to the late Ed Zorinsky, and I would just like to associate myself with their remarks. I would also like to state, and my colleagues know this, I have been many times in meetings with Senator Zorinsky in his office. And one thing that I will always remember about Senator Zorinsky and his philosophy of government is that there was no door on his office. Literally he had an open-door policy, and anyone who wanted to see Senator Zorinsky could walk right in there and see him. There was no secret meeting ever held, to the best of my knowledge, in that office. I think that says a lot about this man's life and about his purpose, and what he was all about. Tom.

Mr. KAY. Mr. Chairman, when you consider that roughly one-quarter of all that U.S. farmers produce is destined for overseas ports, the importance of exports to the future of U.S. agriculture is clear. With other nations similarly dependent on exports, competition has grown at a breakneck pace.

Nevertheless, the United States is more than holding its own in the world marketplace. U.S. agricultural exports are expected to total 114 million tons in fiscal year 1987, a 4 percent increase from the year earlier.

The U.S. agricultural trade balance also is expected to show its first increase in 3 years, rising from $5.4 billion in fiscal year 1986 to a projected $6 billion this fiscal year. FAS operates the program under its purview with a market-oriented philosophy. Today I

[1] See p. 101 for the prepared statement of Mr. Kay with accompanying charts.

would like to discuss with you those programs briefly and tell you how they are working to enhance our agricultural exports.

First let us talk about trade policy activities. To meet the export challenge, the Foreign Agricultural Service is active on a number of fronts. Among the most prominent efforts are those in the area of trade negotiations. U.S. agriculture has a major stake in what is achieved during the Uruguay Round of the Multilateral Trade Negotiations, which was launched under the General Agreement on Tariffs and Trade last September.

The Uruguay Round Ministerial Declaration agreed to by the ministers at the opening of the GATT talks in Punta del Este was a landmark for agriculture. For the first time an entire section was devoted to agriculture, setting out the scope of negotiations in broad terms, and explicitly calling for all measures to be subject to negotiation.

The Uruguay Round agricultural group met in Geneva last month, appointed a chairman, and began substantive discussions. Work is underway, and the group expects to meet again in May. We have not given up the attempt for a fast-track solution to agriculture in an attempt to complete negotiations within 2 years. The Uruguay Round is not the only arena where we have been negotiating for liberalized trade. We have been working with the EC to try to resolve major problems revolving around the accession of Spain and Portugal to the EC. Together these two countries represent a $1 billion market for U.S. farmers.

Late in January we did reach a settlement on this matter. For the first time, the United States received compensation for the loss of a grain market resulting from enlargement of the EC. The United States will receive concessions that will keep the doors open to corn and sorghum sales to Spain and Portugal as well as additional EC tariff reductions on 26 other agricultural and industrial products.

In other talks, the United States and the EC tentatively resolved their 17-year-old dispute over citrus trade that should improve access to U.S. products. We continue to work with the EC to resolve other contentious trade issues, and we are seriously concerned about the recent EC proposal to impose a consumption tax on vegetable oils.

We are, of course, involved with negotiations with Canada to pursue a comprehensive free trade agreement. We are each other's single largest trading partner with overall, two-way trade valued at $120 billion. Agricultural trade accounts for nearly $4 billion of that total.

As you know, we have continued to press for improved market access for U.S. farm products, especially high-value and processed items in Japan, Korea, and other Asian countries that enjoy a trade surplus with the United States.

The Food Security Act of 1985 should be considered. In addition to negotiations, FAS also is responsible for implementing several portions of the Food Security Act trade title. This title contains a number of provisions designed to meet subsidized competition, develop new markets, and provide food assistance to needy countries.

The short-term credit program we know best as GSM–102 is authorized through fiscal year 1990, and USDA is required to provide

at least $5 billion annually in credit guarantees for a variety of commodities including wheat, feed grains, and rice. The GSM-102 program guarantees repayment of short-term credit extended to eligible countries that purchase U.S. farm products.

Exports valued at more than $2.5 billion were registered against the $4.5 billion allocated under the GSM-102 program in fiscal year 1986. For fiscal 1987, we have announced already $3.7 billion worth of credit guarantees for 25 countries.

Last summer we launched the Intermediate Credit Guarantee Program (GSM-103). At least $500 million must be made available this year for guarantees that run from 3 to 10 years. Export credit guarantees valued at $377 million were announced for fiscal 1986 for breeding livestock and other commodities. Thus far, we have announced in this fiscal year $229 million worth of intermediate credit guarantees.

We are all familiar with Public Law 480. This fiscal year the total Public Law 480 program level is roughly $1.5 billion. Title I concessional sales have been effective in both economic development and the creation of commercial markets for U.S. farm products. Last year agreements were signed with 33 countries, covering 5.6 million metric tons for seven commodities valued at $872 million.

In addition, 2.1 million tons of title II commodities, valued at $451 million, were approved for donation to 72 countries. We, of course, are now implementing as well the Food for Progress Program and the Local Currency Initiative in connection with AID.

Section 416 requires donation programs so that all commodities are now eligible that are in CCC stocks to be disposed of in normal domestic channels without impairment of the price support program or sold abroad at competitive world prices. This year, 500,000 tons of grains and oilseeds and 150,000 tons of dairy products have been made available by the Secretary to ship to needy countries.

We are proud of the Targeted Export Assistance Program. Under this program USDA uses surplus stocks from the Commodity Credit Corporation to partially reimburse organizations for export promotion programs they undertake. All of these, of course, are based on unfair trade practices that have affected our own industries.

There is a summary of some of the things we have done under the Targeted Export Assistance Program in the prepared statement. Last year we did make the total amount of $110 million available.

We also administer the Export Enhancement Program. This program is another way in which we are offsetting the effects of unfair trading practices. Since EEP was begun in the summer of 1985, there have been 64 initiatives announced for 40 countries. So far 13 million tons of commodities have been sold. The EEP initiatives accounted for 3 percent of all U.S. farm exports and about one-fourth of U.S. wheat sales in fiscal 1986.

We must not forget long-term market development. FAS has the responsibility for this program, and since 1954 this work has been carried out primarily through nonprofit agricultural trade associations called cooperators. During 1986 FAS and cooperator groups

conducted about 5,600 promotional activities in 130 countries worldwide.

To develop and implement international programs like the ones I have mentioned, we rely on a network of agricultural counselors, attaches and trade officers who represent and promote U.S. agricultural interests around the world. These agricultural experts work to help U.S. exporters make sales, to maximize trade access for U.S. products, to collect, analyze, and report essential agricultural information and to implement U.S. agricultural export programs.

Mr. Chairman, that concludes my oral statement. I would like to call your attention to, I hope, charts which we have made available to you which I think you will find interesting, and they are somewhat self-explanatory, and if you have questions about them, I will be happy to answer your questions.

I would like to make also as a part of the record our latest update on agricultural export assistance as to how we have implemented the Food Security Act trade provisions.

Senator PRYOR. Tom, thank you very much. Without objection, these tables and other material will be placed into the appropriate part in the record.[1]

Tom, let the record reflect that the moment you used the word "citrus," the very instant that this word came from your lips, in the room walked the distinguished Senator from California, Senator Wilson, who has great interest in this.

Mr. KAY. I thought he timed that exactly right.

Senator PRYOR. The timing was perfect. Senator Wilson from California, distinguished member of this committee.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Thank you very much, Mr. Chairman. And I am grateful for your indulgence. I need roller-skates this morning. I am required to be in three committees at the same time. Before I put a question to our distinguished witness, let me join in what I understand has been a swelling chorus of brief remarks from the members of the committee who profoundly miss our departed colleague, Ed Zorinsky. Senator Zorinsky was an old, old friend of mine. I was privileged to know him, I think, before most of the Members of the Senate because we shared the special bond of having been embattled big city mayors together. I thought it interesting that we should come to the Agriculture Committee together since our earlier service had involved problems of a different kind, urban problems. But he was in the first days, when I was privileged to know him, the same dedicated and thorough, somewhat shy and self-effacing fellow, with a mischievous sense of humor who, while he took his job very seriously, never took himself seriously, and indeed, his closing moments were spent in trying to amuse others at his own expense. It seems somehow appropriate as a metaphor for his whole life, and I can only say that I envy him, what he achieved in his too brief span. I think that we would all

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[1] See p. 121 for a reprint of the Agricultural Export Assistance Update.

agree that he has provided a model, and I was particularly proud, although I sometimes worried for him that most of those rollcalls would end with the last two names being Wilson and Zorinsky.

Mr. Chairman——

Senator DASCHLE. Would the Senator yield for just a moment?

Senator WILSON. Surely.

Senator DASCHLE. I know your time is limited. I just would associate myself with your remarks. I arrived late, too, and I knew Senator Zorinsky as sort of a meek person myself, until we had hearings out in Nebraska and Iowa on agriculture, and to hear his profound and very strong statements in support of agriculture, I recognize the leader that he was. To have the opportunity, so ever briefly, to serve with him on this committee was an honor that I will not forget as long as I serve in the Senate.

I can say nothing to enhance what the Senator from California has already said about our colleague, and I know that all of us miss him dearly. I appreciate the Senator for yielding.

Senator WILSON. I thank the Senator. Mr. Kay, you indicated in a speech recently before the Feed Grains Council in San Antonio, I believe, on March 1, that you would rather "take the co-op program any day over a program that could be temporary in nature," that being a reference to the Targeted Export Assistance Program.

I must say that your comment is disturbing to me, especially given the phenomenal success that this Targeted Export Assistance Program has enjoyed, based on your own analysis. If I am not misquoting you, and this, I believe, is your quote, "Horticultural exports during the first quarter of new fiscal year were simply astonishing."

I quite agree with that statement that is attributed to you because in support of it, I would cite the fact that exports for canned peaches rose 87 percent; pears posted a 54 percent gain. The almond growers increased export sales by 141 percent. Now, they are all convinced, the peach growers, the pear growers, the almond growers, that that just did not happen. They are proud of what they produce, but they also think that you do not just need a better mousetrap. You have to be able to tell the world about it, or the world will not beat a path to your door, and that, in fact, is what this program has been about.

They say it simply would not have been possible without the promotional assistance provided under the TEA program. So let me ask you, first, to explain your remarks of March 1, and second, in light of the administration's stated position that the expansion of U.S. agricultural exports remains the highest priority, why does the President's budget call for a cut of $30 million in funds for Targeted Export Assistance from the $110 million that had been authorized for fiscal year 1988?

Mr. KAY. Senator, there is no disagreement among us. I must say that perhaps the Targeted Export Assistance Program has been the star of all the provisions of the 1985 farm bill. I have here a real list of success stories insofar as exports that have increased as a result of the Targeted Export Assistance Program.

In fact, during that period of time you mentioned, horticultural exports were up 30 percent and still going strong. I was asked a question by someone in the press at the Feed Grains Council meet-

ing. A question similar to the one you have asked: why the administration would reduce the Targeted Export Assistance Program by some $30 million.

You know full-well, I think, the story behind that. In the budget process, the cooperator program had been zeroed out completely again in the proposed budget to the tune of $30 million. The Deputy Secretary went to the White House and had that $30 million restored. OMB said there must be an offset. OMB has never understood the difference between the Targeted Export Assistance Program and the cooperator program. They think one intermingles with the other, and they do complement each other. What I was saying at that point in time was when you look at an action of that kind, in which you see it perhaps here today and gone tomorrow, that a line item that has been appropriated is a safer funding mechanism for the cooperators than to rely upon the Targeted Export Assistance Program which is dependent, due to budget constraints, on surplus stocks of CCC commodities.

The Targeted Export Assistance Program is a 5-year program. I know that the executive branch proposes and the Congress disposes. What Congress may do with that administration recommendation you could perhaps answer better than I. But I can assure you that my remarks in no way were intended to detract from the importance and the productivity and the accomplishments of the Targeted Export Assistance Program.

Senator WILSON. I see. So your response to that question asked you by the reporter was not meant in any way to demean the Targeted Export Assistance Program?

Mr. KAY. In no way. It has been the star of the 1985 farm bill.

Senator WILSON. All right. I will take that for an answer. Let me ask you this since the chairman has remarked with his usual perspicacity and wry good humor that my entrance was on cue with respect to your mention of citrus. How tentative do you think the resolution of the citrus/pasta dispute to be? I noted that you were careful to use the word "tentatively resolved," and I understand that. What is the latest on the citrus agreement?

Mr. KAY. It is our understanding now that finally the Council has approved the agreement, and all the pieces have fallen into place and that agreement will be exercised at this point in time.

Senator WILSON. Mr. Chairman, at this point, I think that it would be only fair to comment that as we made our sad journey the other day out to Omaha to pay our last respects to Senator Zorinsky and to grieve with his family, the President's representative on that plane was Secretary Lyng. I know that there was no one on this committee who was, as Senator Daschle has pointed out, more zealous in the defense of his State's agriculture than Ed Zorinsky, no one who was more concerned with enhancing our ability to export for the American farmer. I would say that I think that he and others on this committee have made an effective team with the Secretary and with Ambassador Yeutter.

When I first came to this body, I was moved one day to yield to some passion in stating that I thought that agriculture had been the bastard stepchild at the table of all of our efforts to try to enhance our exports and to right our trade balance. I must say that I think that while we still have a ways to go, that between the ef-

forts of Secretary Baldrige and particularly now that he has been joined by Secretary Lyng and Ambassador Yeutter, it is a very different picture. And this is not a question, it is a statement. I welcome the aggressive advocacy on behalf of agriculture that Secretary Lyng has made, and I think it has been of inestimable assistance to Ambassador Yeutter in pressing for the kind of agreements that you are quite right, I do celebrate, if it has become final rather than tentative. I would appreciate your taking that back to the Secretary.

Mr. KAY. I would be glad to, sir.

Senator WILSON. Are we on the first round?

Senator PRYOR. We have not established a rule.

Senator WILSON. You have been generous, Mr. Chairman. I will let someone else speak.

Senator PRYOR. All right. Why don't we have at this point an agreement that we will try to hold our questions and responses to those specific questions to 10 minutes each, because we do have another witness and then a panel, a very distinguished panel, to follow immediately thereafter.

Senator Daschle, do you have a statement that you would like to make?

Senator DASCHLE. I do not, Mr. Chairman. I do have some questions.

Senator PRYOR. All right. Good. Questions from Senator Melcher?

Senator WILSON. Mr. Chairman, if I might.

Senator PRYOR. Yes, Senator Wilson.

Senator WILSON. If Senator Melcher would yield? I do have a statement, but in the interest of time I will not read it but ask that it simply be inserted in the record.[1]

Senator PRYOR. It will be made a part of the record.

Senator WILSON. Thank you.

Senator MELCHER. Tom, I want first to ask you a very brief question about FAS on a bill I introduced early in January which keeps popping up in various other bills. The main section deals with broadening FAS employment. Another section of it deals with contract authorities for individuals abroad, and permits the FAS to pay under contract for personal services to be performed outside the United States. It removes any indication that these would be regarded as officers or employees of the Government.

Will you just briefly explain what is essential for FAS operation abroad?

Mr. KAY. The same kind of authority, Senator, that the State Department and AID have on a temporary basis to use the services of a professional or a secretarial-skilled person to complement our regular staff overseas. We would like to have that same authority domestically as well, if you would see fit to broaden that in your language so that we could get some jobs done that would be done on a part-time, temporary kind of thing that would complement the work of our regular staff and still not count against the ceilings.

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[1] See p. 96 for the prepared statement of Senator Wilson.

Senator MELCHER. All right. Thank you. Now I want to take you through two sales. The first one is the sale between 400,000 and one-half million metric tons of wheat to the Philippines which the Department of Agriculture cleared around December 15, but has not happened. Was that blocked by the the State Department?

Mr. KAY. The decision in the Trade Policy Review Group of which the State Department is a member, Senator, decided that we would make all of our assistance to the Philippines of a concessional nature, either in Public Law 480 or section 416 rather than through an Export Enhancement Program.

Senator MELCHER. And that occurred after the Philippine wheat millers group had purchased some wheat from Canada; is that correct?

Mr. KAY. The first time, yes, sir.

Senator MELCHER. The first time. Was it the State Department and AID that blocked it in the committee?

Mr. KAY. Well, that committee works on a consensus type arrangement, and I was not at the TPRG. All I know is that the TPRG turned it down.

Senator MELCHER. And so of those that were there, Agriculture, Treasury, and Commerce, in addition to AID and State, it is assumed that AID and State blocked it. I am not asking you that. I am just saying it.

Second, my understanding is that since that time the flour millers in the Philippines have purchased two more sales of wheat from Canada and one from the Common Market; is that correct?

Mr. KAY. That is my understanding, yes.

Senator MELCHER. And so we wonder why the surplus is not moving. That seems to be a case in point.

The second case is Nigeria. Nigeria was offered a little over 1 million tons of wheat in the middle of December. What has held that up?

Mr. KAY. We have offered Nigeria GSM-102 which the flour millers asked for. We have also offered them Export Enhancement Program for wheat. Unfortunately, Senator, their President was really serious when he indicated that he was going to ban the importation of wheat. And so far that ban is still in place. I talked, just the end of last week, to a gentleman who is highly interested in Nigeria, and he says that they are using all their power, as well as the millers, to convince their President to lift that ban and to utilize the line of credit that we have extended and to exercise the Export Enhancement Program which we have offered.

Senator MELCHER. You have offered an Export Enhancement?

Mr. KAY. We have offered; yes, sir.

Senator MELCHER. Just one last comment, Mr. Chairman. In the Philippine sale that has just been described, not only was it objected to by State and AID here in Washington, but also our Ambassador to the Philippines accosted the flour millers in Manila and said that if they did not quit buying from Canada and accept wheat from the United States, he would cut off appeals for help to the Philippines. That prompted the immediate reaction from the Philippine flour millers to make two more agreements with Canada, and one with the European Community.

In other words, the threat backfired. We are still attempting somehow to repair the damage that was done by the State Department. I have asked for the telex communications between the embassy and the State Department here in Washington so that we can properly be advised and properly assessed of what is the State Department's objective and how damaging they have been in this one instance in relationship with the Philippines and the legitimate sales of our U.S. wheat to them.

Thank you very much, Mr. Chairman.

Senator PRYOR. Thank you, Senator Melcher. Senator Baucus and then Senator Daschle.

Senator BAUCUS. Mr. Chairman, I appreciate being included here. I am not a member of the committee, and I would very respectfully defer to the Senator from South Dakota. After all, he is a member of the committee.

Senator PRYOR. The Senator from South Dakota.

Senator DASCHLE. Thank you, my senior colleague from Montana for your generosity.

Senator PRYOR. Max, by the way we are not doing you any favor. You are doing us a favor, we want you to know, by adding your expertise here. You are very nice to do that. Senator Daschle.

Senator DASCHLE. Thank you, Mr. Chairman, and thank you, again, Max. I have questions relating, at least initially, to our seeming inability to collect appropriate data with regard to imports. I am not sure I am addressing the correct person here, Tom, because I know that you are primarily focused on our ability to export. But as I understand it, each agency has different objectives with regard to imports and exports statistics. USDA focuses on export promotion but not any import monitoring, to my knowledge.

Commerce tracks processed food and textile imports, but it does not have any primary responsibility for agriculture. Each Commerce office performs particular functions with limited agricultural perspective, and very little knowledge about what is going on with regard to the raw commodity imports. Then the ITC reports on statistics, but on a very sporadic basis.

My question is: Are we not hampered by our inability for one single agency to compile all agricultural import data with regard to raw and processed food, feed, and fiber?

Mr. KAY. We do monitor, Senator, imports. This is not to say that we are the sole agency required to do that. We do, of course, keep close watch over those items that are covered under section 22 on imports of dairy, sugar, peanuts, and cotton, things of that kind.

But whatever information you might be looking for, if we do not have it, we will get it for you, if you will tell us what kind you are looking for.

Senator DASCHLE. It is not a question of my not having it. I do not need it. Our country needs it. Are you telling me that on a regular basis, week in and week out, that you monitor all raw and processed food, feed, and fiber coming into this country?

Mr. KAY. That which the programs we are charged with administering, yes.

Senator DASCHLE. That is my point. You are only charged with certain programs, are you not.

Mr. KAY. Yes.

Senator DASCHLE. Well, that is the point. It does not seem like there is a collective responsibility within the Federal Government anywhere to be found where import data is compiled in its composite. You have individual responsibilities. Other elements within the Department of Agriculture have responsibilities, but no one has the total responsibility, and as you seek out the impact that imported product has, whether it is raw or processed, we found in a case last year that the CRS actually had to go to the United Nations to get some of the information.

And frankly, I think that is one of our problems, that we really do not have a complete appreciation of all of that coming in. There certainly would not be a technical reason for this lack of practice at this point, is there?

Mr. KAY. No. Since the Department of Commerce compiles all of the figures and makes their report on a monthly basis, and makes this report as well on agricultural imports.

Senator DASCHLE. But if I could clarify.

Mr. KAY. Yes?

Senator DASCHLE. Not clarify but just question. When they make their report, it is only on raw imports; is that not correct. It is not on——

Mr. KAY. That is basically true, yes.

Senator DASCHLE. Well, the CRS in its report to me last year elaborated extensively on this, and I would like to read a quote from page 9 of the report. It is really just a statement:

> While import statistics are maintained on a continual basis, domestic production and consumption data that correspond with import data is not maintained, making it virtually impossible to analyze the impact agricultural imports are having on the U.S. agricultural sector as a whole.

Would you care to respond to that?

Mr. KAY. That probably is true, Senator, with the responsibility being scattered to some degree that it is impossible to sufficiently weight the impact. One encouraging word to you on agricultural imports. We expect them to be down 4 percent this year, and as a matter of fact, last month agricultural imports were down 10 percent. I am sure that has a lot to do with the price of coffee, but nevertheless any old port in the storm is good at this point.

Senator DASCHLE. You bet it is. But again, I would say "down" as opposed to what? I am not sure we really can say that with accuracy if we really do not know the total volume of raw and processed food, feed, and fiber coming into this country. It is hard to say 4 percent of what. Four percent as to the commodity totals that we have had assessed in the past, but it may be 4 percent, or 1 percent, or something for a figure that we really do not know otherwise.

I would hope that as we pursue trade legislation, Mr. Chairman, this year that is going to be an area that we can more aggressively pursue. One final question, and unrelated to what I have just asked about. The EEC Third Country directive, what is the status of it? I am frustrated. I cannot imagine for the life of me the imposition of standards that they are considering, nor their inability to find any one of 400 different plants in this country that can be properly viewed as meeting their specifications. What is the latest?

Mr. KAY. By the end of last month, Senator, the plants in this country that had agreed to make the necessary changes, or attempt to make the necessary changes, should have so indicated to the European Community, and at which time they will be given until the end of this year to conform to the Europeans' standards, and will be subject to reinspection once again.

Senator DASCHLE. Let me just ask. Maybe this is not the correct way to phrase the question. But are we simply going to rollover? Are we going to concede to this kind of demand put upon the United States?

Mr. KAY. Well, I can tell you, Senator, that we have fought it in every capital in Europe. It has been looked at by the Trade Policy Review Group, and they have instituted an investigation under section 305 of the trade bill of 1974 in which we are investigating as to whether or not we should file a 301 case. It is my understanding that the industry is considering filing a section 301 petition themselves.

The Third Country meat directive not only causes problems but also the hormone issue is one in which we feel there is no scientific evidence at all for what they are saying. It has become a very emotional issue. They seem to be proceeding with that as well. So these are two problems we have with the European Community now in addition to the recent announcement of the proposed tax on oils and fats. But we will pursue this, I will assure you, and it is not our intention to rollover and play dead.

Senator DASCHLE. I have certainly used up my time, and I thank you, Tom, for your answers.

Senator PRYOR. Senator Daschle, thank you for your questions. It is 10:55. We have Steve McCoy of the National Commission on Agricultural Trade and Export Policy. I think if Steve—Tom, we do not want you to leave. We want Steve to come at this time and join with us. We think, Steve, for example, some of the questions just asked by Senator Daschle might also be answered by you. So right now we will treat you two as a little minipanel, and in a moment, we will have you make an opening statement, but Senator Daschle asked some questions which, I think, could be handled by both of these gentlemen.

Senator Baucus.

Senator BAUCUS. Mr. Chairman, again I respectfully defer to other Senators of the committee who have arrived, Senator Boschwitz and Senator Conrad. I feel very honored to be participating in this panel, but I also feel that other Senators who are members of the committee should precede me in asking questions, if they so choose.

Senator PRYOR. You are very generous, Senator Baucus.

Senator BAUCUS. I have been in the Senate for 8 years, and this is one lesson I have learned.

Senator BOSCHWITZ. I arrived with Senator Baucus, and I defer to him because I did not listen to the testimony. I am just reviewing it so I have no questions at the moment, Mr. Chairman.

Senator PRYOR. Thank you, Senator Boschwitz. Senator Conrad.

Senator CONRAD. I will do the same. I think in fairness to all who are listening here, Senator Baucus is probably better placed to proceed with his questions.

Senator PRYOR. Senator Baucus.

Senator BAUCUS. I appreciate that, Mr. Chairman. Mr. Kay, what wheat markets are we losing because of high U.S. prices? Could you just give us your gut guess on a yearly basis what sales we have lost because of price?

Mr. KAY. Because our price is too high?

Senator BAUCUS. Yes.

Mr. KAY. I suppose, Senator, first off one would have to look at the Soviet Union. Up until recently you could have looked at China, and there are some other factors involved in the Chinese failure to buy from us for the last few years other than price. We have lost some markets in Central and South America because of price, but I must say that since we have been operating the EEP, we have regained some markets that we had lost, and particularly in North Africa. And we have made inroads in places that we have not been before, and at least we have gotten our foot back in the door in China once again when we offered them an Export Enhancement Program for wheat, and they have bought now some 450,000 metric tons of the 1 million we offered them.

Senator BAUCUS. But it is fair to say we have lost sizable sales to the Soviet Union, China, and others because our price was too high?

Mr. KAY. Yes.

Senator BAUCUS. I guess the question I am trying to address is the degree to which other countries beat us on price because of various degrees of subsidies, export subsidies, whatever, and the degree to which we have to match those efforts in order to move more wheat and food grains in overseas markets? I understand that the resultant value of our EEP offer to the Soviet Union was about $20 or $25 above the price that the Soviet Union could get from other exporters. The average value of our EEP is about $35 a ton. The EEC export subsidies are as high as $100 a ton.

Senator BOSCHWITZ. Or more.

Senator BAUCUS. Or more, as the Senator from Minnesota points out. I think that most purchasers are going to purchase not on the basis of altruism, by and large, or to do somebody a favor. They are going to purchase on the basis of price. Do you agree that we have to meet those prices in order to move our commodities?

Mr. KAY. Well, I think we have exhibited, Senator, that in the method in which we run the Export Enhancement Program on a targeted basis that we have regained some of our market, and we have indicated to our competitors that we are serious about becoming competitive once again. I think insofar as some of our other customers to whom we have not offered an Export Enhancement Program, they are still our loyal and faithful customers, and have continued to buy from us.

I remember an amusing incident which I would like to share with you. When the Soviets were here for their regular consultations a couple of weeks ago, we went through the annual ritual with them as to the fact that we had not offered an EEP to such countries like Japan, Korea, or Taiwan who had been large traditional customers as well.

And the leader of the delegation smiled, and he finally said, Mr. Amstutz, I understand. If our trade balance with those countries

was as bad as yours, we would not offer them an Export Enhancement Program either; we would charge them double. But it is to say that those countries like Japan, Taiwan, and Korea have continued to be faithful customers of ours even though they have not had an Export Enhancement Program offered to them. I think that they understand the way we have operated this program is targeted against the European Community, and to engage in the subsidy in those areas where we have a lost market, and where subsidizers have cornered the market. That has been the success of the EEP.

Senator BOSCHWITZ. Mr. Chairman, may I just say to my friend from Montana that the subsidy is really not entirely comparable because the Europeans start at a much higher level of support price than our loan level so that the subsidy has to be higher. You know they are at 450, and our loan level is quite a bit less than that, and there is a deficiency payment that, also in a way, should be considered, and beside which the Europeans have a rather low protein wheat, pretty junky stuff.

Senator BAUCUS. I appreciate that, Senator, but the point is we are losing sales.

Senator BOSCHWITZ. Pardon me?

Senator BAUCUS. The point is we are losing sales.

Senator BOSCHWITZ. Oh, yes. No question about that.

Senator BAUCUS. And also the EEC. The EEC is going to be the world's largest exporter of agricultural products this year, surpassing the United States. Different countries subsidize in different ways, and the EEC's system is its own system, but the net effect is they very dramatically subsidize their producers.

Senator BOSCHWITZ. They certainly do.

Senator BAUCUS. The net effect of it all is that they are taking some sales away from us. Mr. Kay, I do not want to take anymore time of the committee, but in your personal view, what do we need to do as Americans to regain lost sales and to further increase our sales of wheat and feed grains overseas? What has to be done, in your personal view, not the administration view, not the Republican view, and not the Democratic view, just Tom Kay's view. What do you think we should do?

Mr. KAY. Thank you, Senator, for that opportunity.

Senator BAUCUS. We are all in this boat together. We are all Americans and our goal is the same. In your view how do we accomplish it?

Mr. KAY. Well, I think certainly, Senator, the Congress gave us the right direction insofar as lowering the loan rates in the 1985 farm bill, and I feel that with the combination of what the Congress did and the flexibility that was given to the Secretary to bring our loan rates down so that we could take the umbrella away from the European Economic Community and other exporters, that we have become a lot more competitive, especially in our feed grains, and I would like to say, and this is my personal opinion, that we would make a sad mistake, I think, if we suddenly changed directions from the path we have started in the Food Security Act of 1985.

I think we have got to keep the pressure on our competitors. I think we have already begun to show some results as a result of that act. We have had some of our so-called nonsubsidizing friends

complain a lot about our Export Enhancement Program. They really are not complaining about the Export Enhancement Program. They are complaining about our lower loan rates which makes us competitive once again.

I think we have to keep this pressure up. We have already seen the fact that there has been reduced acreage in our competitors insofar as wheat acreage. Production may be up a little because of yields, but they are beginning to cut back on acreage. Even the EC is talking about some kind of conservation reserve like ours. So I think we have to keep on what we are doing in the Food Security Act.

I think all of us who work in the area of exports have got to work harder than we have ever worked to use the tools that the Congress gave us. I said to somebody the other day when they asked what other tools do you need that we do not need anymore tools. The Congress has given us 12 new programs, $8 billion worth of tools. But tools do not mean anything unless you have a carpenter to use the hammer and the saw. So we need to utilize the people we have. I appreciate very much what the Senator, Senator Melcher, Senator Leahy, and the chairman of the hearing have done about trying to bolster support for additional staff for FAS to do a better job.

I think we have got to use all the tools that we have, and to continue the path that we are on, and do the same job that we have been doing through our international trade policy staff, and in connection with our USTR, and with the others in our Government to break down trade barriers. I think one of the most important things we can do is to continue to press for market access. Market access is a lot more important to us than any kind of trade restrictions we can impose on ourselves.

I think with the combination of those things, we are going to overcome the problem that we have been in over the last few years. If you will look at the graph on one of those charts that I gave you that insofar as the volume of exports, the graph has begun to turn up, and I think that is an important sign for all of us.

Senator BAUCUS. One final question, Mr. Chairman. Does the administration intend to extend the EEP this year to the Soviet Union?

Mr. KAY. Senator, we continue to look at all alternatives. I would not say the door had been closed. When the Soviets were here they never spoke to us in terms of an EEP. They talked, of course, in terms of being competitive. We must say in all honesty that the Soviets for as long as I have known them have looked upon the United States as a residual supplier. If they could buy it anywhere else, they would buy it before they bought it from us.

We have a difference of opinion on the Long-term Grain Agreement. As you know, the last paragraph, article 1, in that grain agreement, says that they shall buy at prevailing market prices. Now we interpret that to mean U.S. market prices. They interpret it to mean at prevailing world market prices.

Well, after all, that agreement is not a global agreement. It is an agreement with the United States, and whatever the prices might be, and I know what you have said, and I agree with you, that people are looking for the best price in this day and age, they still

have an agreement with us that they signed in 1983 saying that they would buy 4 million metric tons of wheat, 4 million metric tons of corn, and possibly 500,000 metric tons of soybeans per year, from 1983 to 1988.

We offered them an agreement in August which they spurned. Now, whether or not we will offer them another or not, I could not say, but I could say, I suppose, that the door is not closed.

Senator BAUCUS. Well, I encourage you to proceed, frankly. I think we have to look to develop those sales as best we can, and maybe we should have Senators Nunn, Levin, and others to try to look back in the background history of that agreement like they are in the ABM treaty. But the fact is we should not let ideology get in the way of commercial sales. Thank you Tom. Thank you, Mr. Chairman.

Senator PRYOR. Thank you Senator Baucus.

The CHAIRMAN. I do have some questions, if I might, Mr. Chairman. Mr. Kay, one of the reasons we had this hearing, as I said in my opening statement earlier this morning, was to get some ideas for agricultural trade legislation. So let me ask you about the competitiveness initiative that the administration recently sent to the Congress. That document had thousands of pages of suggestions, but I had a hard time figuring out the relevance of some of them to trade issues. Product liability provisions, for example—it looked like someone went to some of the lobbying groups up here and said we will throw your suggestions into a paper whether it applies to this or not. We will put it in.

There were even provisions in there to go back to gutting the Freedom of Information Act, something that has been a pet matter of the White House, and something we have shot down each year. I was not quite sure what it had to do with competitiveness. There was a little tiny, tiny bit on agriculture, barely mentioned. There was something about accelerated import relief for perishable products which is already in the Bentsen bill. Is there any particular reason why so very little was put in there about agriculture, or is there a feeling that agriculture is doing fine; it does not need any help?

Mr. KAY. Well, I do not think there is a feeling, Senator, that agriculture is doing well. It is to say, I think, that when you look at the items in the administration's trade bill, particularly in sections 201 and 301, perhaps the strongest tool we have in our arsenal to retaliate against unfair trade practices is the section 301 provision. We have been very successful in using this 301 provision insofar as our agricultural problems with the European Community and with other countries.

There is no question about the fact that we would like to see a fast track provision for perishable agricultural commodities. I think perhaps they felt that with all the tools we had in our arsenal, which the Congress so kindly gave us in the Food Security Act of 1985, with the expanded 301 and 201 provisions, agriculture would be taken care of insofar as its trade problems in the trade bill.

The CHAIRMAN. Well, I am not too sure. You are talking about the 1985 farm bill. USDA has testified that the 1985 farm bill is bringing export prices down, but now a suggestion is made to cut

the GSM-102 export credit program because foreign purchasers are not going to use it. Isn't this a catch-22. If the prices continue to drop, are not foreign governments going to be interested in using our short-term financing?

Mr. KAY. I've never heard anybody say that they wanted to cut the GSM-102 because nobody was going to use it. If we had our way at the Department of Agriculture, Senator, that $5 billion would be used up. I do know, of course, that important to all of us is getting not only the trade deficit, but the budget deficit under control.

The CHAIRMAN. Is that why the administration is asking for a 40 percent cut in the Export Credit Program and a 20 percent cut in the Targeted Export Assistance Program? Is that solely for budgetary reasons or——

Mr. KAY. No, I think they——

The CHAIRMAN. Is there a foreign policy reason? It seems to me that in the TEA we usually get 1½ to 2 times back what we put in. Why are we cutting it? What is the rationale behind that?

Mr. KAY. My rationale is, Mr. Chairman, that perhaps there are those who are still smarting from the fact that Congress mandated $5 billion and they remember the good old days, and perhaps they were not all that bad when the Secretary had the flexibility to say whatever would be obligated by CCC in the GSM-102 program. If he needed $3 billion he could use it. If he decided he needed to have $2 billion more, he could exercise that authority. I think the drift is just to get away from a mandated amount. They are not saying we could not use it.

The CHAIRMAN. So what you are saying is that if the Congress actually steps in and does its job with an oversight, or a mandate, you are going to say we are not going to do it?

Mr. KAY. I did not say that, Senator.

The CHAIRMAN. I honestly do not feel I understand you. What you are saying is that we have mandated $5 billion. You do not like having the discretion cut, so are we going to make sure the program does not work by predeterminating what is mandated? Am I overstating that?

Mr. KAY. Senator, no. You know full-well that the administration always proposes and the Congress disposes. If Congress wants to keep that $5 billion, I am sure they will.

The CHAIRMAN. Yes, but that is not exactly what happens. Many times Congress has proposed and the administration has ignored. Now is this a case where we have proposed, and the administration has ignored?

Mr. KAY. There has been no ignoring of the $5 billion, Senator. We have strained every muscle that we could to use that $5 billion.

The CHAIRMAN. How much of the $5 billion did you spend?

Mr. KAY. Last year we utilized $2.5. billion.

The CHAIRMAN. So you ignored half of it?

Mr. KAY. No, we did not ignore it.

The CHAIRMAN. Did not spend half of it?

Mr. KAY. We announced the allocation of $4.5 which was all of it after Gramm-Rudman, but countries did not take us up on what we had offered them in the line of credit.

The CHAIRMAN. Are you pushing it very hard?

Mr. KAY. I cannot tell you, Senator, how hard we are pushing, that not only here but also around the world with our attachés and our trade offices.

The CHAIRMAN. You can or cannot tell us?

Mr. KAY. I cannot tell you how hard we are pushing.

The CHAIRMAN. Why not? Are there any directives to push it hard, or are they to ignore it? What are the directives? What are our attachés told to do?

Mr. KAY. Our attachés are told, when we announced the line of credit for the countries, they are told to do their best to get them on the dotted line.

The CHAIRMAN. And do they?

Mr. KAY. In some cases they do, Senator. We have problems with interest rates. We have had problems with the dollar's value until now, but that is improving. We are going to see, I believe, an increase in the use of the $5 billion.

The CHAIRMAN. Why?

Mr. KAY. Well, because——

The CHAIRMAN. Why would there be an increase now when there was not before?

Mr. KAY. Interest rates are down. The value of the dollar is down. I think consumption is going to be up, and I think demand will be there to a greater degree than it has before. I must also point out that there was a time that with our GSM-102 program we were kind of the only players on the block. But other countries have developed programs like that now which perhaps are even better than ours, and some of them pay freight.

The CHAIRMAN. As I was saying earlier in my opening statement, it seems some of these other countries are, in effect, having our lunch. They are a lot more aggressive than we are. We spend a great deal in Europe and Japan, and have established markets, but are we being aggressive enough? I have been in a lot of embassies where the agriculture attaché is essentially an adjunct. He is allowed to come in to fill the crowd at a reception and then to file some reports. I mean how many junkyard dogs have we got out there trying to be tough and mean in order to sell and compete, or do we have any? Or is that considered not quite our image? I do not know.

Mr. KAY. Well, that certainly is not the image to portray. We have attachés in——

The CHAIRMAN. Why not? Why not be tough?

Mr. KAY. What do you mean by tough, Senator?

The CHAIRMAN. Are our people out there being as competitive as other countries?

Mr. KAY. I would put ours up against anybody else's; yes, sir.

The CHAIRMAN. So none of——

Mr. KAY. We have 70 posts around the world, and serve 100 countries. Our guys are well-schooled in our programs. They know exactly what we expect of them. They know we would like to spend to the extent of our ability as to what Congress has intended for us to spend, and I cannot believe that we have ever lost a sale because one of our attachés was not aggressive enough.

The CHAIRMAN. You talked about covering freight in the costs as part of the competition. Is there any reason why we could not cover freight under GSM?

Mr. KAY. We are certainly looking at that now, Senator.

The CHAIRMAN. Oh, we are looking at it, but others are doing it.

Mr. KAY. Yes.

The CHAIRMAN. So at this point, are we or are we not competitive?

Mr. KAY. In some instances, that is true.

The Chairman. How long are we going to look at it? I do not mean to harass you about this, but——

Mr. KAY. I would never know it.

The CHAIRMAN. But I am just trying to think from a business point of view. We have heard a lot of great speeches about how, boy, it is a new day. We are going to run this in a businesslike manner. We are also going to be tough on terrorists, I suppose. But concerning the business aspect, if part of the competition is in freight, would it not make sense that we have to be competitive? If the distinguished Senator, my good friend from Minnesota, saw a business competitor come up with a great idea that put him at a competitive disadvantage, I suspect he would either do the same or do something better.

Senator BOSCHWITZ. Hopefully better.

The CHAIRMAN. Hopefully, so he could afford to take me out to dinner.

Mr. KAY. Let me say one word, Senator, about what you said regarding our activities in developed versus developing countries. In 1976, our cooperator program and our other efforts, we expended 73 percent of our resources in developed countries versus 27 percent in developing countries. Now that is absolutely reversed. We are spending about 30 percent in developed countries and a little over 58 percent in developing countries which we see as our real markets in the future, particularly in——

The CHAIRMAN. Spending 58 percent in developing countries?

Mr. KAY. What? Fifty-eight in developing countries. And I am told that we will put in the Federal Register any day now our notice that freight can be covered under our credit program.

The CHAIRMAN. I look forward to seeing that. As the funds are being spent this year, how will you track them? Do you get a monthly report or one every 2 months or——

Mr. KAY. We have a monthly report, Senator, yes.

The CHAIRMAN. Is that public?

Mr. KAY. I gave you the latest one that we have compiled of March 2 here on all the programs, but if you would like to have that, we can give you whatever you would like.

The CHAIRMAN. Thank you very much. Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Mr. Chairman. Senator Cochran.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. Mr. Chairman, let me commend you for scheduling these hearings. I think you can judge by the turnout of Sena-

tors and others who are interested in the hearings how important they are, and how this reflects the fact that this year trade is the first priority, I think, on the legislative agenda here in the U.S. Senate. This committee has a very vital role to play in that. Historically agriculture has been a source of very important sales abroad in the international marketplace. But we have all seen a decline in our market share, an economic recession occurring throughout the agriculture sector in our country because of lost sales and an eroding market share. We have all been working very hard. I know that those of us who were involved in the writing of the 1985 farm bill tried to make the thrust of that bill a more aggressive trade policy for agriculture. Written throughout that bill are provisions that are designed to enhance our ability to compete in the marketplace, to be more aggressive, and to equip the administration with the authorities it needs to support us in our effort to sell more overseas.

In looking at the track record of all of our commodities, I think there are two commodities that stand out as success stories as a result of provisions in the 1985 farm bill, and those two commodities are cotton and rice. I think the reason they are such great success stories, a 300 percent increase in the sale of cotton as compared with last year's level, a 62 percent increase in the sale of rice as compared with last year's, is because of the mandated marketing loan provision.

In the bill, the administration was directed to implement and administer a marketing loan program. That program has worked. I am hoping that we will develop support for expanding that program to other commodities. I have introduced a bill—S. 308—to expand the program to soybeans. I think it is important that we average down the price of our soybeans for sale, but at the same time support income for producers because I do not think it is fair to ask our producers to bear the sole responsibility for the risk that this experiment entails. It is an experiment, to see whether or not bringing our sale price down will solve our problem in the international marketplace. There are other problems that this witness has identified, and I know Senator Baucus has talked about, whether or not this is the answer to it.

Well, it is not, I do not think fair, to say to the producers—whether it is a wheat farmer or a soybean grower or a cotton farmer—that they ought to bear the sole financial risk attendant to trying this new program. That is why built into the marketing loan program is a responsibility of the Government to help share that risk, and to help meet the declining price in the international marketplace by supporting income to producers.

This program is working for those two commodities, and I think we ought to try it in other commodity areas. Soybeans is one where the American Soybean Association, at least, has indicated support through the adoption of a resolution at its last annual meeting of a marketing loan type program. They did not use those words. A lot of people are still afraid of the marketing loan. Some in the administration are worried that it is going to cost too much, and there is an initial exposure for outlays.

I am convinced that as we see the program working over a year or two, the cost and the exposure to Government lessens. I am

going to be interested in seeing what the costs to the Government are projected to be for these two commodity programs for the next crop year. I am convinced they are going to be much less than they were in the first year of the program. I think that would be true in the other commodities, too.

I did not mean to make a speech, Mr. Chairman, but I feel very strongly that we ought to look at what is working now as a result of the legislation that we have already enacted. Everybody has got a bill. I have a bill. I have introduced, cosponsored the Bentsen trade bill, and have joined Senator Leahy, our chairman of the full committee, in sponsoring the trade title to that bill. I have joined Senator Leahy and others in introducing other legislation, and I have introduced my own bill on soybeans. Everybody has a trade bill, but I think we can learn from the experience that we have had over the last 2 years that some parts of the farm bill are working and some parts are not.

I am frank to say that in the grains, we are storing more and we are producing more, and we are earning less in terms of production payoff for our producers. I think we need to take a very serious look at trying something new in those other areas. I wonder what the reaction of our witness would be to the things I have said, particularly about the success in the sales that we have seen in cotton and rice, whether or not that can be translated to other commodities such as soybeans?

Mr. KAY. Senator, there is no question about the fact that exports of cotton and rice have really increased since the marketing loan was instituted with cotton going from something in the neighborhood of 2.5 million bales up to a projected 6.7 or 7 million this year, and with rice perhaps at this present time in this marketing year, up about 70 percent from last marketing year.

We have seen various estimates. There are some who say that if you instituted a marketing loan on soybeans that there would be very little difference in exports. I do know that with the wide gap that now exists between corn and soybeans, there is a real problem. Corn having come down, the loan rate on corn having come down some 41 percent and soybeans only about 10 percent, this is going to cause a real problem for us in the long-run because in many of our competing countries if that continues to be the case, the tendency will be for them to stop planting corn and go to increased soybean production which will cause us problems in the long run. What the costs might be, I certainly could not say at this point. But I certainly think it is worth looking at.

Senator COCHRAN. I know that the success of these programs whether we are talking about a Market Enhancement, Export Enhancement Program, or Credit Program, or Marketing Loan Program, is different from one commodity to the other, and from one country to the other. Why is that? Can you give us the benefit of your observations and experience to help us make a record on these subjects?

Mr. KAY. Senator, I am not sure I understand your question.

Senator COCHRAN. Is there not a difference in the effectiveness of these programs from commodity to commodity? One program may be more effective with one commodity than another such as Mar-

keting Loan or an Export Enhancement Program or a Credit Program?

Mr. KAY. Yes.

Senator COCHRAN. It may vary from country to country, too, as well.

Mr. KAY. There is no question about the fact, Senator, that that is the case. And so far as the marketing loan on rice and cotton, that marketing loan has made cotton and rice very attractive commodities for very traditional buyers like Korea in the instance of cotton.

The Export Enhancement Program has worked very well after it got started in countries where they are having foreign exchange problems because they have an opportunity to buy at a lower price plus in some instances we have made available a GSM-102 program to help finance the sale. So in those with that combination, the Export Enhancement Program has worked very well. The case of Saudi Arabia is a case in point on barley. Who would have ever thought that the Saudis would have bought as much barley from us as they have bought under the Export Enhancement Program, and yet it was a very attractive program.

Algeria is an example for wheat. I must say that the Export Enhancement Program has perhaps opened the door for us in Algeria that no other program would have opened, and several years ago you could hardly get an appointment when you went over to Algeria to talk to anybody about trade. Now, they are coming here to talk to us about trade.

So I think it is important that as we look at all of our programs, whether it is P.L. 480, GSM-102, GSM-103, or the marketing loan; it is important to look at the destinations and the program and put together a package that would be attractive to a particular country, and that is what we have been trying to do.

Senator COCHRAN. Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Cochran.

[The following written questions from Senator Pryor and Mr. Kay's answers were subsequently received by the subcommittee:]

Question. What is the biggest complaint we hear from U.S. exporters?

Answer. We hear considerable criticism that trade barriers in developed countries keep out our products—Japan and Western Europe being the chief offenders. Lately, the newly industrializing countries—Korea, Taiwan, Brazil—have been added to the list of good marketing opportunities where tariff and nontariff barriers (mostly the latter) keep out U.S. goods. We continue to use negotiations, and trade remedy and export program authorities as appropriate to address these concerns.

Question. Why do we continue to have delays in the P.L. 480 program?

Answer. We believe that in recent years the P.L. 480 programming process has generally improved. Sometime circumstances beyond the control of the Executive Branch do affect this process. For example, last year due to Congressional discussions and actions, it was necessary to reserve $100 million in P.L. 480 funds until the very last month of the fiscal year. Despite this, we were still able to fully commit all of FY 1986 P.L. 480 funds. This year, programming has also progressed well overall. However, the late use of last year's funds combined with lower prices which result in shipping greater tonnages have assured good supply in many P.L. 480 recipient countries. In some cases, this may mean that FY 1987 shipments will take place a little later this year. However, we are still confident that we will again be successful in fully committing P.L. 480 funds this year.

Question. How can we make it simpler for potential customers to buy agricultural goods from the United States?

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Answer. The question implies that it is difficult to purchase agricultural products from the U.S. We believe the U.S. has one of the most advanced infrastructures for supplying agricultural commodities of any country in the world.

We have numerous market development programs which are designed to overcome any technical or other barriers. We have agricultural offices in over sixty countries and numerous overseas cooperator offices that serve to facilitate purchases from the United States, including through the use of such U.S. Government programs as credit and export subsidy programs.

Any other difficulties encountered in purchasing agricultural commodities from the U.S. relate to factors which we are addressing through the MTN.

Question. Why has the Department not carried out the barrier provisions of the 1985 Farm Bill?

Answer. We are working to carry out the very specific barter requirement contained in the Food Security Act of 1985. The law does require a tie to strategic or other materials for which national stockpile or reserve goals established by law are unmet. We are working with other agencies who are responsible in this area. While we continue to work on this specific type of barter, we are pleased that we have carried out several activities which are barter-like in using commodities owned by the Commodity Credit Corporation in lieu of cash facilitate increased agricultural exports.

Question. I request a list of success stories.

Answer. Attached is a list of success stories.

TEA SUCCESS STORIES

—U.S. private firms participating in the California-Arizona citrus Export Incentive Program have helped boost exports of lemons to the Pacific Rim—primarily to Japan—by 27 percent.

—Bolstered by promotional activities by the Wine Institute, exports of U.S. wine to Japan have doubled and market share has increased by 10 percent.

—Despite a reduced U.S. crop, prune exports from July–November are up almost a third to Western Europe. California Prune Board promotion contributed to that increase.

—Walnut exports are up 20 percent over last season due primarily to aggressive TEA promotions by the Walnut Marketing Board in Spain, West Germany, and Japan.

—National Potato Promotion Board efforts in the Far East helped to increase U.S. frozen potato exports by more than 30 percent compared to the same period in 1985.

—U.S. exports of canned fruit are up 35 percent to Taiwan and 117 percent to Japan largely as the result of promotional efforts by the California Cling Peach Advisory Board. Expectations are that canned fruit exports to Taiwan and Japan will almost triple those in 1985.

—The California Table Grape Commission played a part in expanding U.S. grape exports. For the first five months of the season, grape exports doubled to Japan and increased 22 percent to the Far East in general.

—U.S. wood industry's Summit House, a model wood house constructed in Tokyo, has hosted more than 20,000 visitors and has prompted the Ministry of Construction to seek legislative approval of changes in local building codes which could have a major positive impact on U.S. wood exports to Japan.

—Exports of fresh Florida grapefruit were up by a third in volume and 50 percent in value to Western Europe during October 1986–January 1987 compared to the same period a year earlier. Grapefruit shipments to Pacific Rim countries registered similar gains. This export expansion was bolstered by promotional efforts of the Florida Department of Citrus.

Senator PRYOR. It is 11:35. We still have another member of this panel who has not made his statement. That is Steve McCoy of the National Commission on Agricultural Trade and Export Policy, and then we have a panel of four outstanding individuals. I do not know how we are going to do all of this in this length of time that we have because we do have to finish by 12:30. I am wondering if we might ask members of the committee, and our guest, Senator Baucus, maybe to ask a series of very quick questions, and then possibly ask some questions for the record for him. In fact, I have

about five or six questions I am going to ask him to answer for the record later.

But please refer your questions also to Steve or to Tom. Steve, you want to summarize your prepared statement here in about 2 or 3 minutes. Could you do that? You look like you are agile and creative and have the ability to do that.

STATEMENT OF STEVEN A. McCOY, INTERNATIONAL TRADE CONSULTANT, E.A. JAENKE & ASSOCIATES AND REPRESENTING THE NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY

Mr. McCoy. I think I can be very brief. I have got to tell you that I have to summarize an 800-page report, but I will try to keep it under 2 or 3 minutes.[1] I am happy for the opportunity to come here today to represent the former members of the National Commission on Agricultural Trade and Export Policy. You will recall that that was a body that was established by the Congress in 1984 for the purpose of recommending to the Congress the kinds of changes in agricultural policy that you are considering this year.

We did send recommendations up to the House and Senate last June, some of which were incorporated in the House passed omnibus trade bill and are now actually the bulk of the agricultural trade title of H.R. 3. In addition, some of our other recommendations have appeared in one form or another in other kinds of legislative vehicles that are under consideration this year, and certainly many of the ideas that are currently being discussed by this subcommittee are ideas where there would be a strong sympathy on the part of the Commission.

The Commission no longer exists, but it is the will of its former membership that perhaps the work of the Commission might go on particularly because of the agenda this year. As you know, there is a tendency for Commission documents to be forgotten almost upon delivery, and so in this instance I certainly am pleased at the opportunity to give you some brief insights into the direction of policy that the Commission is recommending.

Again, the Commission went through a very comprehensive list of considerations. In total, there are about 9 different areas that the Commission considered in coming up with its final recommendations, and its recommendations exceed something in the order of 40 different points. I think I can, for the purposes of the discussion today, I would just like to mention three major areas, and deal rather briefly with at least the principles that underlie the Commission's recommendation so you will see the direction in which the Commission is moving in this general picture.

The three areas that I would like to talk about would be action to counter unfair trade competition, better use of resources of Government including food aid and foreign assistance to develop expanded demand for U.S. agricultural commodities and products, and finally, improved internal coordination of current U.S. Government international and domestic policy and programs affecting trade.

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[1] See p. 142 for the prepared statement of Mr. McCoy with an accompanying attachment.

You are all aware of a certain amount of misgiving within agriculture on the issue of how aggressive we should be in terms of pursuing and meeting the challenge of unfair trade practices, and there has been a fair amount of controversy on that. Given the fact that the Commission was a broadly based consensus group, I think it is significant that it did endorse the strongest possible policy on the part of the United States to counter unfair trade practices. It is quite clear that those practices are on the rise, that in many cases—I noticed earlier you were talking about the price of wheat and how it is affected by unfair trade practices. Well, it is interesting to note that by USDA estimates, in 1984, approximately 75 percent of all wheat in the international trade was traded under some sort of Government-assisted program. And so clearly we are dealing in an international market where governments rather than marketplaces are dictating the terms and conditions of this kind of trade.

The Commission, therefore, recommended very strong retaliation. This is not a term that it necessarily liked to use, but very strong offsetting action to discourage other nations from using unfair trade practices. But their concept in dealing with this issue was to try and link it to an expedited section 301 process so that there would be a consistency in policy that if the 301 process on an expedited basis determined that there was reason to protest an action of another country, instead of this just being the beginning of a long-standing negotiation, it would actually trigger an offsetting U.S. action.

That is the first point I would like to make that the Commission did strongly endorse the concept of the very active U.S. policy in the area of meeting the challenge of unfair trade practices. The Commission was also very active in terms of analyzing GATT. One of the things that is important and which the Commission report urges the Congress to do is to pay particular attention in drafting the GATT provisions of the trade bill to ensure that an agenda is developed for agriculture that deals with these issues as opposed to a general reference that we must talk more about agriculture.

There are a number of areas in which the Commission believes that reform of GATT could be of particular use in agriculture, and it goes beyond just clarification of criteria relating to subsidies, which is a common subject for discussion. But also, for example, the extension of GATT to cover state trading practices. Now, we have talked about that in relation to the wheat and wheat products trade.

GATT has no capability of dealing with state trading issues, and to the extent that increasingly in international trade we are dealing with governmental, or quasi-governmental, purchasing or exporting agencies, that seems to be a major limitation of GATT. Also, in relation to the Third Country meat directive, it might be useful to explore the possibility of internationally agreeing upon scientific standards governing health and sanitary codes so that these kinds of nontariff barriers would not arise.

Briefly, the Commission believes it is important that specific agenda be included in the trade bill for the agricultural section of the negotiations. Now, the Commission was also very concerned,

and would have been strongly supportive of the many suggestions about market development that have been mentioned this morning.

It was concerned because it believes that the resources that the Federal Government provides for market development are rather paltry in terms of the direct market development programs such as FAS is responsible for administering.

It also notes that other programs which could have an important impact on, or important leverage in our ability to better market our products overseas, are not used for that purpose. And in this regard, the Commission was particularly critical of foreign assistance programs. It is clear that foreign assistance programs that there is no direct agricultural market development orientation of foreign assistance programs.

This is even true to a certain extent of the P.L. 480 program where, in effect, you have four objectives of those programs including market development, but only three titles. The Commission believed that the foreign assistance programs and the food aid programs should be much better targeted toward achieving direct market development, payoff for agriculture. It obviously recognizes the long-term utility of those programs, but it believes they could serve a short-term role as well.

The final point I want to raise, because perhaps it has been the most controversial element in this Commission report, relates to the recommendations of the Commission about the coordination of agricultural trade policy within the Federal Government. The Commission has recommended a rather sweeping reorganization of the Department of Agriculture and of the trade functions of the Department of Agriculture, and a change in the relationship between USDA and other agencies including USTR, and in the interagency process generally.

Now, the reorganization proposal has been criticized largely for reasons, I believe, that people are resistant to change. But the purpose of the proposal is to do for agriculture what agricultural leaders have been saying they will do for a decade or more, which is to attempt to raise the, or elevate the, position of agriculture in the total policy process. The Commission believed that simple exhortations for greater cooperation between individuals or agencies is fine as far as it goes, but it has not worked, and now is the time, therefore, to make specific organizational arrangements to ensure that the agricultural perspective is an important weight in final decisions.

Finally, related to that, the Commission has also recommended that the USDA be required to annually prepare trade strategy reports that would provide a basis for long-term planning not only for the purposes of congressional oversight, but for the purposes of the better understanding of the agricultural community about the direction of Government policy that is intended, the long-term objectives, the kinds of resources that are going to be needed in the future. It was the Commission's belief that the trade policy information, or trade policy generally has been a rather short-sighted and ad hoc process. So consequently, if there was greater attention played on long-term trade policy planning, which includes, some sort of treatment of the resources that USDA believes could be necessary to do the job, there would be the potential, not only for

building in those resources from the budgetary perspective, but also for developing a very consistent support from the agricultural community for the programs that the Department administers. I am sorry to have taken so long. I got carried away there.

Senator PRYOR. Tom, have you called on anyone for questions?

Senator DASCHLE. Mr. Chairman, I just commend the Commission, and Steve, in particular, for his presentation. I think it is really a good blueprint for us as we proceed in drafting trade legislation in this committee. I hope we refer to your report extensively because I think it warrants that, and I thank you for coming.

Senator PRYOR. Senator Conrad.

Senator CONRAD. I would like to direct a couple of questions at Mr. McCoy and then Mr. Kay, if I might, but first of all to Mr. McCoy. If you could just briefly outline what is the reorganization that you call for in USDA of the trade function? What are the two or three steps that are most critical based on your analysis?

Mr. MCCOY. The first step in the reorganization proposal was a division of labor that calls for the establishment of a new Under Secretary of Agriculture for Trade, and splits the——

Senator PRYOR. Excuse me. For trade or for agriculture?

Mr. MCCOY. For agricultural trade. Basically what it does, currently the international programs of the Department of Agriculture are under the leadership of Under Secretary Amstutz who is both Under Secretary for International Programs and for Domestic Programs. Our purpose in the reorganization proposal was to attempt to establish a very lean, concentrated, centralized trade unit within the Department. We have FAS currently, and FAS does a very good job with the limited resources it has available.

We believe it would be important in addition to FAS to amalgamate some of the work of some of the other agencies that are involved in international economic analysis, for example, to basically bring all these various resources together and concentrate their energy on market development and trade policy. Now we have to point out that one of the reasons we went toward the reorganization option was that we were concerned about not doing anything that was going to lead to a recommendation for additional Federal spending. And so we were attempting to use existing resources and bringing them together more effectively.

Perhaps the committee might have solved some of these problems if, indeed, there is support for additional resources to be spent on these activities. That kind of policy could achieve a similar beefing up of USDA activities.

Senator CONRAD. Thank you. Mr. Kay, if I might just go back to you. You made the statement that we have become more competitive, and I assume that you are talking about the price reductions that have occurred. When I look at wheat and feed grains, and I look at the volumes that we are moving from 1985 to 1986, even though we took a tremendous hit on price, volumes were down. Even now, based on forecasts, they are up very slightly, and of course, if you look in dollar terms, dramatically down.

My question to you is: When you take that dramatic a price hit and you do not get a corresponding increase in your export volume, is that good business?

Mr. KAY. Senator, we believe it is. We have said all along in our analysis even when the farm bill was being drafted that the turnaround would not be overnight, that it would take at least 3 years for a dramatic turnaround to occur. Nations have their buying habits established, and even when the 1981 farm bill was drafted and put into place with its high arbitrary loan rates, we did not fall precipitously overnight to the trough that we found ourselves in last year. It took 4 years to get there, and now when we have adjusted from what we did in 1981, which made us noncompetitive, we cannot expect the recovery to be overnight either.

True, the prices are lower. The value is lower on exports. You must remember that prices are down, and in the report that was issued yesterday by the Department, the export forecast for almost all commodities with the exception of soybeans was up over and above what we did last year. So I believe that we are headed in the right direction.

Senator CONRAD. That is up from very low levels. I mean you are talking a 4-percent increase overall?

Mr. KAY. That is 4 percent in volume, yes.

Senator CONRAD. Four percent in volume. Of course, with a price hit, that means the total dollars received would be dramatically down overall.

Mr. KAY. Well, the value will be approximately the same as it was last year, $26 billion.

Senator CONRAD. That is on an overall basis. But if we look at wheat and feed grains, we would be down substantially.

Mr. KAY. You mean so far as your exports are concerned?

Senator CONRAD. Right. Export value will be down substantially?

Mr. KAY. Well, export value would be down because the prices are down. But the volume will be up.

Senator CONRAD. Yes, but when you put the two together, when you put price and volume together, and you are down, that is what leads me to ask the question: Is that good business?

Mr. KAY. It all depends, Senator, on whether or not you want a short-term quick fix or you want a long-term steady growth.

Senator CONRAD. We see a dramatic turnaround in cotton and rice. There the program put in place in 1985 did give a quick fix, and that leads me to my next question which is: What does your analysis tell you about the effectiveness of the marketing loan applied to wheat and feed grains, what would that do for us? Would we get the same kind of results that we got in cotton and rice, or are there some factors that would prevent us from getting the same kind of positive effects?

Mr. KAY. We do not believe, Senator, that you would see the dramatic turnaround in wheat and feed grains as you saw in cotton and rice because of the tremendous world stocks that you have in wheat and feed grains. The world is awash with grain, and there would not be that dramatic turnaround in grain.

Senator CONRAD. So what is it going to take? You have just said it yourself. The world is awash in wheat and feed grains. How are we going to bring supply and demand back into some reasonable balance so we can have reasonable prices? What is it going to take? What is going to occur with the program which we have in place

that is going to do anything about the extraordinary imbalance between supply and demand worldwide?

Mr. KAY. Well, I think we are in the right direction, Senator, with having lowered our loan rates and we had asked——

Senator CONRAD. But, given the factual context within which we must operate, the world is awash in grain; we have dropped our prices; we do not get a commensurate increase in export volume in order to give us greater dollar volume. I do not see the light at the end of the tunnel here.

Mr. KAY. Well, Senator, you must realize that the Food Security Act of 1985 has been in place only 1 year, and you must realize, too, as I was trying to say, that we have taken the right step with the lowering of the loan rate. We would hope that if we could get the target price down some that there would be less incentive to produce. We are retiring 45 million acres of highly erodible land in the conservation reserve which should have never been put in production in the first place.

We are requiring people who sign up for the program to comply with the set-aside acreage reduction program in order to collect Federal payments. Now, those are steps——

Senator CONRAD. What kind of reduction in production do you anticipate from those steps?

Mr. KAY. Well, we feel that the false incentive to produce for the Government will be taken away, and people will produce more in accordance with what the marketplace dictates. I believe that this kind of philosophy is going to occur in other places of the world. The European Community, as I said earlier, is now looking at some form of conservation reserve. They realize that we have a similar problem with them.

Senator CONRAD. But you are not answering my question which is: What kind of reduction in production do you anticipate from those steps?

Mr. KAY. Well, I do not believe I can furnish that for you, Senator, but I can tell you that the overall——

Senator CONRAD. Is there any analysis of that that has been done?

Mr. KAY. I am sure there must be. That the overall summation of this, not only in this country, but in other countries, and as I mentioned earlier with Argentina, Canada, and Australia, our major competitors, having talked about a reduction in plantings, that people realize we have an oversupply, and countries realize, like the EC, that they have stimulated that production by sending false signals and having people produce for government programs rather than for the marketplace. We did not get ourselves in this situation in 1 year, and we are not going to get out of in it 1 year. It is going to be a slow, steady climb.

Senator CONRAD. Well, let me just conclude by saying that you had indicated that we had to keep the pressure up. I tell you a lot of this pressure is on our farmers, and I think you know that. The reason I am sitting here is because they cannot wait much longer in order to see some results. And, if a marketing loan would be helpful, then we need to put in place a marketing loan. There are other steps that we could take that would be effective—I frankly do

not see how the current policy which we are pursuing is going to do the job in the wheat and feed grains.

There are parts of the 1985 farm bill that seem to be working, but I will be very frank with you, they do not seem to be working in the wheat and feed grains. And, when I hear you say, we have to cut the target price some more, frankly all I see that doing out there with our farmers is they are going to slap on some more fertilizer to increase production because the only way they are going to service their debt is to generate income. The only way they are going to do that is be part of the program, and at the same time produce more. I do not know how else they are going to get more income. It just makes our problem more severe. Obviously, we ought to be entering into some kind of international agreement with the rest of the major producers to try to do something about this supply-demand imbalance.

It seems to me that it would be in all of our interests to do so. And, if we do not do it, I just do not see much light at the end of the tunnel from what you have said here today.

Mr. KAY. Well, I guess it all depends on your perspective, Senator. I think there is light at the end of the tunnel. I think we have seen the upturn begin to occur. I do not know what kind of an agreement you would come to with our major trading partners. We certainly would not want to enter into any kind of market sharing.

Senator CONRAD. No, no, no. I am not talking about market sharing.

Mr. KAY. That is what they want, and we will never agree to that.

Senator CONRAD. Well, I am not sure that that is the only thing that they would accept. If we had some proposal to reduce supplies, some cooperative proposals to increase demand without their being a market sharing in the sense that you are talking about—we get 30 percent of the market, they get 27 percent, et cetera, et cetera, that does not make sense. But if we do not have some way of bringing supply and demand into closer balance quickly, there are going to be a whole lot of farmers in my State who are not going to be around to see the positive effects of the upturn.

Mr. KAY. We have had two meetings like that now with the major grain exporters, one in Canada last year, and again in San Diego this year, which the Secretary hosted. And no solutions came out of either meeting.

Senator CONRAD. Well, part of the reason no solutions came out is because he told me had no such plan. It is my understanding, and I have asked the Secretary repeatedly if he was going there with a proposal, with a plan, with an agenda item that talked about a specific concept of bringing supply and demand in some closer balance with a cooperative effort. In fact, he had no intent of proposing any such plan. Maybe that is the reason we are not successful in obtaining some agreement.

Mr. KAY. Well, we feel that the issues which you address, Senator, are on the agenda to be discussed in the new round of MTN, and one of the things that will be discussed there will be this artificial problem that we have of subsidies stimulating production, interfering with exports, and it is our hope that this can be on a fast track in the new round. It is a must for agriculture.

Senator CONRAD. I have more questions, Mr. Chairman, but I will defer.

Senator PRYOR. I think most of us are going to have to submit those in writing.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Kay, I also think that we should apply more pressure. You yourself said we should apply more pressure on our competitors. I am a little concerned, though, when you seem to back off on the idea that the Senator from North Dakota mentioned—pursuing the possibility of a marketing loan for wheat and feed grains? I have introduced a bill that directs us to move in that direction.

You in your response said it will not work with wheat and feed grains as it has with cotton and rice because of the oversupply of the products. Well, my immediate reaction to that is, well, then, why has EEP worked? Why has lowering loan rates worked to force Argentina to reduce its plantings. If EEP works for wheat and feed grains—you yourself said it works—and if lower loan rate works, why won't a marketing loan work for wheat and feed grains? It has worked for cotton and rice. It seems to me that if EEP and lower loan rates have had the desired effect on our competitors, to some degree, that a marketing loan proposal would also tend to work.

Why is not sauce for the goose also sauce for the gander?

Mr. KAY. Well, I think the reasons, Senator, that the EEP has worked has been because we have used a targeted approach.

Senator BAUCUS. It has lowered the price.

Mr. KAY. And we have found where we could put those commodities in certain markets rather than just make it operate in a blanket fashion. If you use the targeted approach, you have an opportunity to sell in markets where you know it can be used. Statistics may prove me wrong, but I do not believe you would move anymore under the marketing loan type program than you would under the EEP.

Senator BAUCUS. Well, I hear your words, but I do not follow your logic. I just do not follow your logic. In fact, logic to me goes the other direction because it has worked, and you yourself give the reasons why EEP and lower loan rates have worked. It seems to me that is further evidence as to why we should explore the marketing loan concept. I do not know that this is the total answer, but I think it should be explored much more aggressively than we have in the past, based on experience in other commodities.

Mr. KAY. Well, I have not said not to explore it. I certainly do not have all the answers.

Senator BAUCUS. Frankly, I think we should push on it. There is not much time.

Mr. McCoy, I have been concerned frankly about your proposed reorganization. It seems to me it is just tepid. It is weak tea. It does not do anything. It just reorganizes within USDA, as I understand it, and the problem basically is that every different agency in our Government is an agricultural trade expert. They all have one vote at these intercabinet meetings. USDA has a vote. USTR may have a vote, but so does the State Department, and so do all other agen-

cies. And Treasury Department probably has more than one vote. It just seems to me that reorganizing USDA is not only not going to do much, but it is misleading. It is a waste of time.

Mr. McCoy. Well, I would like to defend it obviously as I think if you just concentrate on the diagram at USDA, it appears that the only component of it that is significant involves changing office descriptions at USDA. But the proposal also designates in legislative language the Secretary of Agriculture and the Department of Agriculture as the lead agency in matters of agricultural trade.

And this is intended to be a direct instruction to the other agencies of Government that what is intended here is the primacy of the Department of Agriculture in matters of agricultural trade. In other parts of the recommendation, you will find, for example, in regard to foreign assistance, the reorganization proposal requires the prior agreement of the Secretary of Agriculture before any agricultural foreign assistance program of the United States can be implemented overseas, and here again this is an attempt to give the Secretary of Agriculture leadership not only in the commercial trade sector but also in the foreign assistance sector.

So I think when you consider those parts of it, which are another aspect of the reorganization, you will find that it does substantially more than many other kinds of plans. Clearly it does not say that for every circumstance and in every situation, USDA shall have a higher authority in these matters than the State Department. But at least for the first time it would clearly state in statute that it is the law of the land that the USDA and the Secretary of Agriculture is the lead official.

Senator Baucus. Well, I appreciate that. There is not much time. I just think it does not go far enough. The signals our country sends and our governmental arrangement compared with the signals that other countries send. Japan has MITI, the Ministry of International Trade and Industry. It is a major department focusing on international trade and industry. What do we have? We have a Department of Housing. Yes, we have USDA. We have a Justice Department. We have all these different cabinet positions which focus inward and do not focus outward.

Other countries are using trade as a major component of their economic policies, that is to raise their standard of living. The world has dramatically changed in 10 years. I just think that we as a country have to start changing signals dramatically and show that we are not only aware of the internationalization of the world but we are going to do something about it. I think that agriculture should be a very strong component of that internationalization. I suggest that you have taken a good first step. But I suggest that it is a first step. We should go forward much more quickly with something more dramatic. Thank you, Mr. Chairman.

Senator Pryor. Senator Baucus, thank you. I have several questions that I may submit to you in writing. For example, to you, Mr. McCoy, I would like to know a little more about the proposed reorganization that Senator Baucus is talking about.

I would like to know what the administration's response has been to that recommendation. I would like to know your own feelings about the role the State Department plays in agricultural

policy. We always get a real fuzzy answer here in this committee room on that.

I also want to ask questions about the foreign barriers to agricultural trade, and specifically did you follow the Rice Millers requesting a 301 investigation of Japan's ban on practically all rice imports. Those are the types of questions I would like to ask.

Mr. Kay, to you, what is the biggest complaint we hear from would-be U.S. exporters? Why do we continue to have delays in the P.L. 480 program? How can we make it simpler for potential customers to buy agricultural goods from the United States? Why hasn't the Department carried out the barter provision of the 1985 farm bill? We would like also for the record some of the success stories that I think you have in your folder about the cooperative program. These are the type of questions that I would like to submit in writing.

We appreciate both of you being here today. You have undergone quite a grilling, and we certainly thank you for your attendance and for your cooperation.

Now we will call our panel that has been waiting a long time. We have a panel of four individuals, and we will get right into that immediately. Thank you, Tom.

Mr. KAY. Thank you, sir. I enjoyed being with you as always.

Senator PRYOR. A good workout.

Mr. KAY. Yes, good mental exercise.

Senator PRYOR. Let us move right into this panel. We are certainly going to move very rapidly. We apologize to our panelists, who have flown in here, most of them, from a long way off. We have a constituent first of Senator Cochran's. We have Alex Curtis, president of the Grain Terminal, Greenville, MS, representing the National Council of Farm Cooperatives. There is Mr. Curtis.

We have LaVern Freeh, vice president for public and international affairs, Land O'Lakes, Inc., from Minnesota.

All right. Vernon Scott—you do not have to signify. We all know Vernon, at least I do. He is from the great State of Arkansas. He is from a community down in the southeastern part of our State known as Tillar, AR, population 238 fine souls, and Mr. Scott is the favorite son from Tillar, AR coming to Washington today. He is, of course, producer and adviser to the Cotton Council.

And Bob Bor of Bishop, Liberman, Cook, Purcell, and Reynolds, representing the National Corn Growers Association. Bob is certainly no stranger. We do apologize once again for you having this long wait, and we want you to feel free to make your statements. We would like to urge you to summarize those statements.

The Democrats have a luncheon today, as do the Republicans. I must say in separate luncheon rooms. On Tuesdays, we do that, and this is our day to meet. We can be a little late, but we would probably like to conclude at 12:40. I will stay here as long as necessary. So, first let us hear from Mr. Curtis. If you would summarize your statement, and submit the full statement for the record.

STATEMENT OF ALEX CURTIS, PRESIDENT AND CEO, FARMERS GRAIN TERMINAL, INC., GREENVILLE, MS, ON BEHALF OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. CURTIS. Thank you, Senator Pryor. I am Alex Curtis. I am president of Farmers Grain Terminal and a rice and soybean producer.[1] I represent the National Council of Farmer Cooperatives here today. This organization represents about 90 percent of the 5,800 local cooperatives in the Nation and about 2 million farmers and almost every conceivable commodity that you can imagine.

I would remind you today, Senator, that after hearing all of these elaborate comments about the marketing loan proposal, that the National Council claims credit for being the birthplace of the marketing loan. Of course, it was carried forward from there by some very able leadership in the Congress.

My statement is based largely on resolutions that the National Council has adopted through their resolutions process, and our resolutions propose that the provisions of the 1985 farm legislation be very strongly adhered to and carried forward to their greatest extent.

The National Council was very active in the production and the passage of the 1985 farm bill, and we believe that all of the provisions, particularly the trade provisions of the farm bill, should be carried forward to their greatest extent.

We certainly believe in the marketing loan, and Senator Baucus, I particularly agree with your statement that if the EEP works to some extent, why will the marketing loan not work to a greater extent. And certainly I believe that the marketing loan sends a completely different signal to our competition than does the EEP or the Targeted Export Assistance Program.

It sends a certain and forward-going signal to our competition that we are going to be there with him in the marketplace, and that we are going to stay there whatever the consequences. And of course, I have heard all of you, including Senator Cochran and Senator Pryor, and I know your positions. The National Council is with you full force in that effort.

Just in summary, I would say that to my knowledge, to my certain knowledge, the marketing loan proposal has worked for rice. There are others here who certainly can testify that it has worked for cotton, and I must say that it is almost sinful that it has not been adopted for soybeans, and hopefully there is some way that that decision can be reversed. I certainly believe it would work for grains as well.

I would be happy to attempt to answer any questions.

Senator PRYOR. Yes, sir. Thank you very much, Mr. Curtis. Mr. Freeh.

STATEMENT OF LaVERN A. FREEH, VICE PRESIDENT OF PUBLIC AND INTERNATIONAL AFFAIRS, LAND O'LAKES, INC., MINNEAPOLIS, MN

Mr. FREEH. Thank you, Mr. Chairman. I certainly appreciate the opportunity to testify on behalf of the 325,000 farmers who own

[1] See p. 167 for the prepared statement of Mr. Curtis.

Land O'Lakes. I wish to thank the committee for focusing attention on this important topic, and I want to thank Senator Leahy and others who have submitted trade bills.[1]

Senator PRYOR. Very good. Thank you.

Mr. FREEH. Since you also have my prepared statement, let me just simply highlight three of the things in that testimony which we think are of particular importance. We think, for example, that there is a bias in the administration against the development of an effective Export Enhancement Program for dairy cattle or dairy products.

This is particularly reflected by the recently announced Dairy Products Export Enhancement Program which we view as generally inappropriate and unworkable, but which we feel could be made workable with just a few changes, changes which we strongly suggested to the administration prior to the announcement of the program, and they chose to ignore, and we would hope that this committee would take a serious look at those suggestions which we are making to make that program viable.

We think that as it is, dairy products are being discriminated against both in terms of being able to effectively market them and in terms of how that Export Enhancement Program is handled for other commodities.

The administration is putting some on caveats and restrictions on dairy products for export that are not there when you look at other kinds of commodities, and we think this is unfair. While it probably meets the mandate of the Congress to do something in this area, it cannot work. What has really been done? And that is a question we have. The second thing, of course, we have a real concern, a continuing concern, about the section 22 quotas, and if, as our Secretary of Agriculture and our trade ambassador said, we are going to put everything on the table. We say that is okay to put anything on the table if we are sure, though, that before we trade anything away, the other milk-producing nations eliminate their internal production incentive and their export assistance programs.

Our fear is that we might end up trading away section 22 as it relates to dairy for something in the grains or something else. We have a real fear of that happening. Casein imports, in most cases section 22 quotas, have provided equitable protection from subsidized foreign dairy products. The problem is that the major exception is casein which is the predominant protein in milk and can be easily substituted for domestic dairy ingredients in feed and food products. The problem here is that large casein imports reduce the commercial demand for domestically produced milk. So we urge that quotas be established on the imports of casein and other milk proteins in an amount equal to 50 percent of the average import volume during the last 5 years.

Such quotas will not eliminate the burden of casein imports on domestic milk producers, but they will limit the damage that is being done. This concludes my verbal testimony and I will be very happy to answer questions.

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[1] See p. 169 for the prepared statement of Mr. Freeh.

Senator PRYOR. Thank you very much, Mr. Freeh. Mr. Vernon Scott.

STATEMENT OF VERNON SCOTT, PRODUCER AND ADVISER TO THE NATIONAL COTTON COUNCIL OF AMERICA

Mr. SCOTT. You have already told them where I am from and what I do. I do represent the National Cotton Council of America at this meeting, and I will just briefly, Mr. Chairman, cover the remarks here because we filed a prepared statement.[1]

Senator PRYOR. Thank you.

Mr. SCOTT. First, is the marketing loan. And everyone is surprised, I guess, at what the marketing loan has done, even the Cotton Council. We estimated last year, I think, Senator Cochran, about 2 million bales would be exported. We are going to export 5 million more this year than we did last year. That might answer a few questions, sir, about what your predictions would be on this marketing loan.

We have supported FAS and have been a cooperator since the cooperator programs started and we support the movement for more help there. Also, the GSM export credit programs, both loan and guarantee programs. We continue to be supportive of that. The Export Enhancement Program, we think all of these things combined with the marketing loan will help us move more products. We are generally supportive of S. 512.

We have pointed out some things in there that you could review because we think there are some pitfalls that you might try to avoid in that bill. We also think that you need to be very careful in what is happening in GATT because they could trade off a lot of the good things that we have, and it certainly needs to be monitored. And we end up again with the marketing loan. We think that we would like to have permanent legislation on that, maybe make it a permanent part of S. 512. That, in essence, is what is in our prepared statement, Mr. Chairman.

Senator PRYOR. Vernon, thank you very much.

And now Bob Bor.

STATEMENT OF ROBERT M. BOR, ON BEHALF OF THE NATIONAL CORN GROWERS ASSOCIATION

Mr. BOR. Mr. Chairman, and members, it is a distinct pleasure to be here today. I have worked hard in times past with many members of this committee, and I am very appreciative for their efforts in support of agriculture. I would first like to add my voice to the remarks that were previously made concerning Senator Zorinsky. He was a kind and gentle man, but also a very, very dogged supporter for agriculture, and he is going to be sorely missed.

Mr. Chairman, today I am here to testify in behalf of the National Corn Growers Association,[2] and particularly on the issue of a countervailing duty suit which was instituted in Canada by the Ontario Corn Growers. The association is meeting this week in Washington to develop its position on the various pieces of trade legisla-

[1] See p. 176 for the prepared statement of Mr. Scott.
[2] See p. 181 for the prepared statement of Mr. Bor.

tion that have been introduced, and you will be hearing directly from them at a later date as soon as they have concluded their meetings. Their board, as a matter of fact, at this moment is discussing the various legislative proposals before Congress.

The countervailing duty suit that was instituted last year represents the first countervailing duty action ever instituted against exports from the United States. It involves an agricultural commodity, corn, which is so dependent upon export markets for the well-being of farmers here in the United States.

On February 2, the Deputy Minister of National Revenue in Canada made a final determination that in his view the imports of corn into the United States are subsidized directly or indirectly by the United States in the amount of approximately 85 cents a bushel which represents more than 50 percent of the current market price of corn. Last Friday, on March 6, by a 2-1 vote, the Import Tribunal in Canada, which is charged with determining the issue of material injury, determined that the so-called subsidizing of imports into Canada of corn originating in the United States, with two exceptions, has caused, is causing, and is likely to cause, material injury to the production of corn in Canada.

The two exceptions were imports of corn into British Columbia which from time to time accounts for a substantial portion of corn imports and imports for the snack food industry.

The decision of the Import Tribunal obviously was a distinct disappointment to us insofar as it affects imports into provinces other than to British Columbia. We believe that we had presented a compelling case that the Canadian corn producers were not injured by imports of corn from the United States, and are deeply concerned that this case may act as a precedent and result in other countries taking comparable action to erect new import barriers against imports of agricultural commodities from the United States.

In fact, a delegation of French corn growers recently visited with their counterparts in the province of Ontario, and later made an aborted effort to institute a comparable action with the European Economic Community. That may be pursued at a later date. We do not know, and we are very much concerned about that.

The countervailing duty action was part of a deal that was worked out by the Ontario Corn Growers with the Canadian Government. The Ontario Corn Growers instituted this action in return for a commitment for a special deficiency payment program from the Canadian Federal Government. This came out in the course of testimony before the Import Tribunal, and I attach to my prepared testimony a copy of a letter that was written by the Ontario Corn Growers to the Canadian Export Association.[2]

They allege—the Ontario Corn Growers—that they could not afford to produce at the reduced prices that result from our 1985 farm bill which was below their cost of production; whereas, producers in the United States have the benefit of deficiency payments which gives them an edge up in their ability to continue production. In their original complaint, they alleged that almost every

[2] See p. 185 for a reprint of the referred to letter.

single program that is administered by the Agriculture Department was considered as subsidy.

They included the agricultural research programs, soil conservation programs, REA programs, Farmers Home programs, the litany of export programs and many, many others. We were successful in convincing the Revenue Canada officials to eliminate all the programs but six. In other words, they dismissed the complaint as to a total of 58 programs and also dismissed the complaint as to all the State programs.

What they did find countervailable consisted of the guts of our feed grain program, the deficiency payments, in particular, and the loan program. We were particularly exercised with the adverse determination of the Import Tribunal on the matter of injury. We were convinced that there is no basis for an injury determination—that there was no causal linkage between imports of corn from the United States and any injury to the Canadian corn industry.

In fact, in the course of the last 5 years, imports from the United States declined from some 22 percent of the Canadian market to some 6 percent of the Canadian market, and at the same time the production in Canada has edged upward. In effect, the combined effects of the 1981 farm bill has benefited the Canadian corn growers by exerting an upward influence on the price of corn through the loan rate, and by reducing the amount of corn that was marketed here in the United States either through the acreage diversion programs or by our producer reserve programs.

In fact, it was the U.S. farm programs that are responsible for the present production success in Canada, and their real complaint is that we have not continued to support the Canadian prices at the same level as was provided in the 1981 farm bill. I have included in my prepared statement the various other reasons that we gave in support of our position. I would also add that I am not sure that the countervailing duty is going to do them any good because when Canada is in a net export position, if they want to export, they have to compete in the world market. So they are going to have to keep their prices competitive with the United States.

In years when they are not exporting, they produce other commodities—feed wheat and barley—which are competitive with corn for use in feed. They are produced in abundance in Canada. These will supplant corn as a feed constituent if the price of corn rises. In addition, the industrial users are likewise going to act as constraints on any increases in the price of corn.

In our view, this decision has wide ramifications. First, we are very much concerned that it is going to act as a precedent to encourage other countries to take comparable action to limit access of U.S. commodities.

In addition, this decision, if it is read to stand, is going to create somewhat of a pall on the free trade talks that are being conducted with Canada. It is going to lose support from an agricultural constituency for these free trade talks, and it must be remembered that Canada has more to lose than the United States in these types of actions because Canada has a favorable balance of trade with the United States. In the case of agriculture, the trade is about even, but overall, they have a favorable balance of trade of some

$20 billion. Beyond this we think it is going to create complications in the GATT negotiations.

Finally, I would like to comment on efforts here in the United States periodically to expand further the reach of the U.S. countervailing duty statute. In many respects, Canada has copied our own statute as a model, and other countries as well look to the U.S. statute as a model. In addition, Canada has used U.S. case law as a point of reference for its own decisions.

In other words, whatever we do here is being copied elsewhere. To the extent that we expand our own law, it is going to result in other countries following suit. That only means that in the future we can expect other countries to make further and further use of countervailing duty law to impede access of agricultural commodities. We pride ourselves on the impartiality of the International Trade Commission. We should not be surprised if other countries have comparable bodies which are much more politically motivated.

Therefore, here in the United States we should be cautious in the kind of changes we make in our countervailing duty law so it does not boomerang and serve as a basis for reducing access abroad to exports of U.S. agricultural commodities.

Remember recovery of the agricultural sector depends so much on maintaining and increasing the exports of agricultural commodities.

Senator PRYOR. Thank you, Bob.

I do not have a question for this panel at this time, but just a comment, because two or three of the panelists have mentioned the marketing loan, and it has been discussed at length this morning. I want the record to indicate a little bit of history about the marketing loan.

It was in the spring of 1985 that Senator Cochran and I in this very room threw out on this table an amendment, the first, let us say, introduction to the marketing loan concept. I do not think, very honestly (I will say this for myself—I know Senator Cochran can see farther out in the future than I can) I did not, I must admit think it would prove to be as successful as it has been for cotton and rice. But we wanted the marketing loan, the two of us, to be extended to all crops and all commodities, if I am correct, Senator Cochran.

The following day the administration, maybe to head off the marketing loan—I am not certain—announced the Export Enhancement Program. The following day. I do not know whether that was a response to the proposal by Senator Cochran and me. Several months elapsed in the process, and I remember a December night here as we were about to adjourn, we argued for the marketing loan, and the soybean people came forward and said "we are not sure we want it," and finally they said no. And the wheat people looked at it, and said "we do not understand." The corn growers could not quite fathom how it would work. So Senator Cochran and I finally said we will be the guinea pigs for cotton and rice. Give us the marketing loan concept, and let us try it and see if it works. We think it has worked. Senator Cochran and I in the next several days will be holding—I do not know whether we will call it a press conference—but we will be holding a meeting. We

have just had the opportunity to see a white paper that has been produced relative to the marketing loan program, and we will examine in detail all the issues, all the costs, all the benefits, all the downside, all you wanted to know about the marketing loan program but were afraid to ask. We are going to be making this presentation, and we think that thus far the program has been very constructive.

I have been visited, and I know Senator Cochran has, by our chief—let us say our chief adversaries or chief competitors in the field of rice, the Thais. They have come to my office. They say "this program is awful. It is going to break our rice farmers in Thailand." Our answer is very simple. No, it does not have to. It can help all of our farmers. You simply raise your rice prices. Ours go up accordingly, and then we play on a level playing field. That is all it is.

And we think it is going to work. It has not worked miracles, but it has certainly put us on, as we say, a glide path, to reopening some old markets that we had lost over the last decade. We are very optimistic about it, and I am very proud to hear the very positive statements this morning at the hearing made relative to the marketing loan.

Senator Cochran, and then we will go to Senators Conrad and Baucus.

Senator COCHRAN. Thank you, Mr. Chairman. Let me join you in expressing our appreciation to this fine panel of witnesses who testified before our subcommittee this morning. I am very happy that my good friend Alex Curtis is among those who are here this morning. He is the immediate past president of the Mississippi Soybean Association. And he is a widely respected leader in our State of Mississippi. He is one of our finest citizens.

So it is a great pleasure for me to be able to greet him and welcome him to the hearing and to compliment him on the fine leadership he has provided back in the State. I am impressed with the quality of the testimony that we have here today. I think it has been very helpful. I notice in one statement that was made about the farm bill of 1985, the suggestion was made—I think it was Alex Curtis who said that the National Council of Farmers Cooperatives supported the full implementation of the Food Security Act of 1985.

I think that says a lot about what we need in the trade area right now. That bill, as I had observed initially when I had an opportunity to speak this morning, contains many authorities and provisions which if fully utilized will go a long way toward helping us solve a lot of the trade problems that we confront today. I am assuming by that testimony, and I will ask this in the form of a question, that you mean that the Secretary should go back to the Food Security Act and implement provisions that were authorized there to more fully address the current trade situation rather than concentrate so much on supporting the current program announcements? Is that a fair statement of your suggestion, Mr. Curtis?

Mr. CURTIS. Certainly, Senator Cochran, it is. I get the perception from the administration that possibly their approach to greater export markets and greater activity in the export markets may be as Mr. Kay has stated this morning, just lowering the loan price,

and to me, that sends a signal, but it does not send even remotely the same signal as the marketing loan.

The EEP, or lowering the loan price, merely, it seems to me, reallocates the market that is out there. The marketing loan has a very strong tendency to increase markets. I think if we see the implementation of that, that we will see global markets increase, and we will our share of those markets increase instead of a reverse trend where global markets are trending downward, and our share of the downtrending market is trending downward. I believe that the marketing loan can help turn that around as well as all of the trade features certainly of the 1985 Food Security Act.

Senator COCHRAN. I wonder if the other members of the panel have an observation to make about that. Does the Food Security Act of 1985 contain sufficient provisions to effectively address the problems of agriculture trade? Bob, what is your reaction to that?

Mr. BOR. Senator, I would like to put on a different hat, if I might, at this time. Our firm, as you know, represents the U.S. Rice Producers Legislative Group which is formerly known as the Five State Rice Producers Legislative Group. We are very grateful to you and Senator Pryor for the work you have done in support of the marketing loan program.

One of the problems with expanding exports is having the ability to obtain access to markets in foreign countries. Senator Pryor has introduced a bill, S. 500, which is designed to give us access to countries where we are denied access at the present time. One might say that we need to work on two things at the same time. One, we have to assure that we maintain our competitiveness in world markets which the marketing loan program does do. But secondly, we have to do what we can to overcome trade barriers which countries like Japan have imposed that prevent us from marketing our rice in a natural market, and which other countries, Korea and some others, such as the European Community have used to reduce the kind of access that we would like to enjoy.

Mr. FREEH. Senator Cochran, Land O'Lakes has supported the marketing loan concept from the beginning, and we think it should be extended to other commodities. In terms of the 1985 farm bill, as far as the export part of it, the trade part of it, we do not think it really has anything in it to really move dairy products, and we think there are some markets out there that we could get. As you know, Congress did mandate that the administration should come out with a program to help the United States promote the exportation of dairy products. So they came out with the Dairy Export Incentive Program.

We think, as I said earlier, this program as currently authorized is totally inappropriate and unworkable. For example, the program requires that the exporter export the products he receives as a bonus. Now that causes a big problem because many foreign customers simply do not want that kind of a product that is in CCC storage.

So why not let us substitute a product that the foreign customer wants, and use the bonus commodity for domestic purposes. We need to get over this mentality of shipping what we want to get rid of. Let us ship what the customer wants. They have different

tastes. We may not think that what they want is any good, but that is what they want.

The second shortcoming, we think, is that the program, as it is presently, authorizes, requires that an exporter actually ship the products he has sold and certify that it has left the United States before the Government will release the bonus commodities authorized under the program.

This means that two shipments are required rather than one, and that adds extra costs and frustration, and we think the solution is simple. Let the exporters ship both the bonus and the commodity that he is selling in the same shipment.

Shortcoming number three: this specifically concerns nonfat dry milk. Under the program, the CCC releases the oldest nonfat dry milk first. This product could be up to 2 years old. It may be good for animal feed, but not for humans. Most customers want fresh products for human consumption. Again, very simply allow substitution. We could use that nonfat dry milk for making calf milk replacer and so forth. Let us substitute the good product and send it overseas. We cannot understand why the administration wishes to put so many restrictions on the dairy product export incentive program that are not present for other commodities. It is as though they have programmed it for defeat. And that really bothers us.

Senator COCHRAN. Mr. Scott.

Mr. SCOTT. Senator, the success of this program in cotton, there would not be any way we could not endorse it for other commodities because I think it has had great success in cotton.

Senator COCHRAN. One thing I think a lot of observers have missed is that the same benefits that foreign purchasers get, domestic purchasers receive also. I mean the price is brought to market, whether it is the international market or the domestic market, at a competitive level. This has meant a great deal in the expansion of the sales of cotton.

For instance, 500,000 bales of cotton, we have seen sales increase by 500,000 bales just in the domestic market here in the United States as a result of this program, and I think that is a point that ought to be made. It is not just an export program. It is a sales program generally, and it is working to the benefit of our consumers here in the United States as well as our taxpayers, in my judgment.

Mr. SCOTT. Since this program has been instigated, Senator, cotton has gone from about 42 percent of the domestic market for fiber to somewhere around 47 percent this year.

Senator COCHRAN. Thank you very much. Thank you, Mr. Chairman.

Senator PRYOR. Senator Conrad, if you have questions?

Senator CONRAD. Just a quick comment, Mr. Chairman. I was interested in Mr. Curtis' comment that the marketing loan sends a different signal, substantially different signal to the marketplace than does the Export Enhancement Program or any of the other programs that we have. It sends a signal that we are going to be out there, that we are going to be competing, that we are going to protect our farmers in the process. I think frankly the proof is in the pudding, and we have seen what it has done in cotton. We have seen what it has done in rice. I want to salute the chairman, and I

want to salute Senator Cochran, for introducing the concept here. I hope that you will join with others of us who would like to see it extended to other commodities as well because I feel very strongly that we need to extend it to wheat and feed grains and soybeans, and frankly, I think we need to extend it to sunflowers as well.

I think we have got to have an entire package here that we go to the world marketplace with, and we say the United States is going to be here. We are going to be tough, and we are going to compete, and we are going to protect our farmers in the process. I think we will then find that the rest of the world wakes up and decides that they are going to cooperate with us in some supply movement because ultimately the only way we are going to get a reasonable price is to have some balance between supply and demand.

That is not going to happen unless they are convinced this country is ready to fight. I want to thank all of the gentlemen here today for their comments. I think they buttress precisely my own views, and I want to thank Senator Baucus for the bill that he has introduced and which I intend to join. I hope we can extend it to sunflowers as well because I think we need to take a whole package out there and say to the international market we are ready to fight.

Senator PRYOR. I do think it is a strong signal we sent with marketing loan, and I think it is time to send another signal out there. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. I just want to thank all of you for not only allowing me to participate, but I want to thank the witnesses for sharing their direct experience with not only marketing loan, but generally with our Government's efforts to try to promote our exports overseas. You obviously have a lot of experience, all of you, and that means a lot to us.

I also thank the Senator from North Dakota, Senator Conrad, for his efforts here, and you, Mr. Chairman, and Senator Cochran, I want to thank you for being guinea pigs. We could not have had better guinea pigs than the two of you. You are respected so highly in this body. The marketing loan has worked for rice and cotton, and I think that the success is a good precedent to use the same program, therefore, for other commodities. I thank you very much.

Senator PRYOR. Thank you, Max, and really, our committee appreciates your participation in this hearing. Senator Baucus, as I stated earlier, is a member of the Senate Finance Committee, which is going to play a very instrumental role in shaping the omnibus trade bill, and his participation here is going to be very instructive. Once again, we are out of time, and I want to thank our witnesses. I want to apologize for your having to wait so long. I may have one or two questions, for example, for Mr. Freeh, about the Jamaica Agricultural Development Foundation. I do not know if you have mentioned this in your statement. But I am wondering if that might not be a model for some projects that we might look at, and I might ask for examples there, if I might.

And then some questions about Australia and New Zealand. They have complained very long and loud about the U.S. and EC subsidies, and that is especially in the area of dairy, and I think we might need to go a little deeper into that.

Mr. FREEH. Be happy to do that.

Senator PRYOR. This whole area of trade is so very complex, but it is the issue of our day. It is an issue that we have got to master if this country is going to work its way out of this cycle. You have helped us this morning in a very positive and constructive way. We are all indebted to you, and we thank you for your statements this morning and for your patience and endurance.

Mr. FREEH. Thank you.

Senator PRYOR. Vernon, we are very proud that you came all the way from Tillar, Arkansas. Max, out of 238 votes, I think I got 235 votes there last year. It is a wonderful town.

Senator BAUCUS. What happened to the other three?

Senator PRYOR. I am still looking. They have been very good people and very tolerant of me, and especially in the area of agriculture and trying to find some answers to the various problems that we face.

Thank you all very much. The meeting is adjourned.

[Whereupon, at 12:50 p.m., the subcommittee adjourned, to reconvene at 9:36 a.m., Thursday, March 12, 1987, in room 334, Russell Senate Office Building.]

AGRICULTURAL TRADE PROPOSALS

THURSDAY, MARCH 12, 1987

U.S. SENATE, SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCTION PROMOTION OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:36 a.m., in room 334 of the Russell Senate Office Building, Hon. David Pryor (chairman of the subcommittee) presiding.

Senators present or submitting a statement: Senators Pryor, Melcher, Conrad, Cochran, Bond, and Wilson.

Senator MELCHER [presiding]. The subcommittee will come to order. This morning we are going to continue our hearings on agricultural trade.

We have as our first witness this morning Orville Freeman, president of the Agriculture Council of America. Orville, will you come to the witness table and please proceed.

STATEMENT OF ORVILLE L. FREEMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AGRICULTURE COUNCIL OF AMERICA, ACCOMPANIED BY CLAIBORNE CRANE, EXECUTIVE DIRECTOR

Mr. FREEMAN. Well, thank you very much, Mr. Chairman. It's a privilege to appear before this important subcommittee at your invitation to discuss current legislative proposals dealings with agricultural trade, and a particular privilege to have you, Senator, as chairman. There's an old saying that good things come in bunches, and this is my second appearance with you as the chairman before a subcommittee this week. I mentioned on Tuesday afternoon that if I had to guess, I'd say I probably have been in this room and before this committee 100 times, but not since 1968. I must say that the challenges and opportunities and problems that face rural America and American agriculture are not too much different than they were when I first appeared in this committee room in January 1961.

As you stated, Mr. Chairman, I am here in my capacity as president and chief executive officer of the Agriculture Council of America, and I am joined at this table by Mr. Claiborne Crane, who is the executive director of the Council.

The recovery of U.S. agricultural exports, and with it the consequent recovery of rural America, is the primary thrust of the Agriculture Council of America, a unique umbrella organization that cuts across the entire spectrum of the U.S. agricultural industry, from producers and their suppliers, into transportation and proc-

essing and on to exporters and those who work abroad on economic development and commercial-market building.

I would like the record to show the members of the board of directors of the Agriculture Council of America and the trustees of the Agriculture Council of America Education Foundation. You will note that these boards include five former Secretaries of Agriculture, the elected leaders of the general farm organizations, top executives of corporations in the private sector, both cooperatives and proprietary firms together, and a wide cross-section of leadership from the commodity groups and the private voluntary organizations. They are listed in the prepared statement before you.

[The members of the board of directors of the Agriculture Council of America and the trustees of the Agriculture Council of America Education Foundation can be found on page 186.]

Mr. FREEMAN. The chairman of this subcommittee asked in his letter for specific proposals. Before doing that, with your permission, I would like to submit for the record a policy paper outlining the agricultural export initiative of the Agriculture Council of America.

Senator MELCHER. That will be made part of the record.[1]

Mr. FREEMAN. Thank you, Mr. Chairman. The export program set forth in this document calls for a more vigorous use of the existing statutory tools and appropriations, rather than new legislation. It presents the perspective, principles and strategy from which we view the specific bills on which you asked us to comment. With your permission, I would like to briefly summarize it and then go on to more specifics.

The programs developed and carried forward in the late 1950's and the 1960's laid the foundation for the prosperity of the 1970's and early 1980's in rural America. This was the most prosperous time in peace time in the history of this country for American agriculture. These programs combined humanitarian food relief, economic development and commercial market-building and were sometimes called "the action triangle." You will recall, I'm sure, that Public Law 480 incorporated this multiple approach and set it forth in its title: the Agricultural Trade Development and Assistance Act.

In the 1970's, especially in the so-called less-developed countries (LDC's), some of which were moving toward the level of newly industrialized countries (NIC's), commercial demand worldwide climbed so rapidly that so-called surpluses disappeared and shortage, rather than surplus, dominated the world agenda.

Unfortunately, the "action triangle" thrust of the 1960's lapsed in the 1970's, with the result that the world returned to a surplus position in the 1980's comparable to what I faced as Secretary of Agriculture in 1961.

The primary thrust of the ACA action program is to carry forward in the last half of the decade of the 1980's the multiple programs of humanitarian food relief, economic development and commercial market-building that made possible an increase in U.S. agricultural exports from the $6.3 billion a year when I left the office

[1] See p. 187 for the material supplied by Mr. Freeman.

of Secretary of Agriculture in early 1969 to the $43 billion in calendar year 1981.

The leadership of the Council met 2 weeks ago with Secretary Lyng and Administrator Peter McPherson of the Agency for International Development to review the same areas addressed by pending legislation. It was a very encouraging meeting, the latest of several signals we have had from the administration of movement toward more aggressive, creative use of the tools they have, especially surplus commodities, to advance our agricultural exports.

In some areas, particularly the timely programming of overseas projects, we found that part of the problem was one of communication. These two key executives knew this was a problem, shared our view and general philosophy, thought they had resolved the logjams and were not aware there had been some relapses.

So, we continue to hope that the objectives you seek to accomplish will in fact be implemented under the discretionary authorities of the President, the Secretary of Agriculture, and the AID Administrator already have. We continue to believe the movement is in the right direction. A strong commitment to these goals and personal involvement at the highest levels of the Government is a prerequisite to their attainment.

Might I add to my prepared testimony, Mr. Chairman, that what the bill submitted called for and what the Council calls for is a program which should be in the forefront of U.S. foreign economic policy, should command the personal attention and involvement of the President and of the members of the Economic Council, and certainly the direct involvement of the Secretary of Agriculture and the Administrator of AID. That was the case when we moved a program into action during the 1960's.

Legislation, and any other action the Congress can take to speed this movement along, therefore, is a most welcome development.

Let me turn now to the specific bills on which the subcommittee requested comment.

S. 512, incorporated in the Omnibus Trade Bill, S. 490, includes three features I particularly like. First, regarding the trade barriers and other difficulties vis-a-vis specific countries, it takes the approach of spelling out findings and negotiating objectives from the point of view of Congress—rather than attempting to set up a rigid system of points and counterpoints and "punishments" that may well be incompatible with the daily flux of the international marketplace and could hamstring our negotiators.

Second, S. 512 and a provision in both S. 310 and H.R. 3 would make CCC commodities available to the market-developer cooperator organizations, adding to their arsenal of tools as the front-line soldiers in this battle for increased exports and improved market shares. We strongly support any legislation, including appropriations, to maintain and strengthen these organizations. Their work in behalf of the producers of specific commodities is outstanding.

Third, S. 512 seems to have an underlying sentiment that Government export enhancement efforts should give more emphasis to the developing countries. I agree. They are the primary growth markets at present and clearly our only hope for the necessary expansion called for by our production capacity, which is approximately 40 percent in excess of our domestic needs.

In this regard, we are especially supportive of Section 5 of S. 310, calling for far greater use of our Government-owned commodities as food aid, with part of it to be monetized for economic development projects. That device—monetization—is very important. The donated surpluses, or, in some cases, soft loans, are sold inside the country. The local currency that is generated is used to carry forward an economic-development program to help to get a country out of a subsistence economy. There are many, many projects for which we can monetize these commodities, furthering both the process of development for sustained commercial-market gains and the goal of reducing our stockpiles.

Many provisions of the law call for monetizing commodities in that way, but they are not used aggressively today. The National Commission on Agricultural Trade and Export Policy recommended last year: "Congress should call upon the Administration to restore the proportion of food aid in its foreign economic-aid budget from the current level of 18 percent to one-third of the total of all such assistance, the same proportion of food-aid resources as provided in the period 1968 to 1972."

Monetization is a tailor-made, budget-conscious way to help achieve that goal, and that section of S. 310 would be very helpful. Using such devices, we became competitive in the world market in the sixties and dominant in the seventies.

Elsewhere in S. 310 the emphasis is on using the CCC commodities to the fullest extent possible and recovering market shares around the world. While we obviously support both principles very strongly, I would have just one caveat. The provisions seem to be weighted more toward rewarding, or doing battle with the Europeans over, our traditional good customers, regardless of whether the market is growing, than toward developing new, potentially explosive markets in the Third World, using what limited resources we have.

Mr. Chairman, you also asked for comment on title VI, the directly agricultural sections, of H.R. 3. We would strongly support subsections (a) and (b) of section 611, section 612, and section 613 of this measure, because we believe they would help focus the Government on the need for and value of long-term agricultural trade planning and strategy and on the beneficial connections among food aid, economic assistance, and commercial-market building.

Finally, three measures you sent to us—S. 308, S. 399, and S. 500—are outside the scope of our endeavors at the Agriculture Council of America, as they focus directly on an individual commodity and/or primarily domestic-market considerations. We would defer on these to the expert testimony of the particular producer groups or market-development organizations involved.

That concludes my prepared statement, Mr. Chairman. Again, I appreciate very deeply this opportunity to discuss agricultural-trade legislation with you, sir, and with this subcommittee. Senator Melcher, I would be happy to answer any questions, if I'm able to do so.

Senator MELCHER. Orville, I believe it's time for making a shift in our policy in the United States. You touched upon it, and I want to go beyond what you said. Even if we'd restore one-third food to our economic development aid, the ratio—two-thirds economic and

one-third food—as we previously had, we would still be short. I think it's time that we emphasize the positive in our foreign policy, and that we put food in the forefront of it. It would better serve our interests abroad, and more wisely, than would the tinkering that we do in many instances with describing as economic aid what is in fact a military build-up. The times are tougher abroad in the developing countries, much tougher, than they were in the seventies or the first 6 years of this decade. The increase in population over the past 15 years in developing countries makes food more urgently needed. Food aid serves our purpose at this particular time, since we have both a shortage of cash, because of our huge deficit, and a huge abundance of surplus commodities. We can better utilize the surplus commodities both for direct food assistance and for monetization. The combination of the two will give us more economic development than we have ever envisioned before—if we'd only use it.

I very much agree with your testimony; I think I'd just carry it a little bit further.

But I think you understand that our trade policies should be led by the President. We've had an extreme difficulty up until now communicating with the President on the urgencies of these matters with agricultural exports. I hope that changes. We have some encouragement with Howard Baker becoming the Chief of Staff at the White House. We might be able to approach the White House much easier than we have over the past couple of years. I hope that's the case at any rate.

But while we can and will pass various types of bills this spring, without the commitment of leadership by the President we are just thwarted. I hope we can overcome that.

Do you have any specific suggestions on just how to overcome that?

Mr. FREEMAN. We have tried in the Council to reach the President. I've made a presentation, as covered in the testimony here, to some of his assistants and reviewed the program, and nothing happened. I share your hope that with the new Chief of Staff there will be more attention and more concern focused. As I indicated, I am encouraged; I do believe that there is going to be a greater degree of involvement by the Secretary of Agriculture and by the Administrator of AID and joint efforts, coordinated efforts, to make the tools available move more effectively. But there's much that needs to be done.

It's a difficult structure when you have five different departments managing something which is complex, which involves a good deal of logistics, which also involves a good many judgments along the way—why, it's difficult to get action. But these two men have worked together before. When Mr. Lyng was the Deputy Secretary, he and Peter McPherson moved very effectively a very significant amount of dried milk powder quite constructively and tied it into developing a dairy industry in a number of developing countries, and you are aware of that.

And I hope and I have some reason to believe that they will move much more aggressively now.

Senator MELCHER. I certainly hope that's the case. The opportunities are there, and your work and the Council's work stressing

those opportunities has been, I think, one of the most positive developments I've seen here in Washington over the past 2 or 3 years.

I stressed to Dick Lyng prior to his confirmation that I would wholeheartedly support his confirmation with the feeling that he could penetrate the maze of policymakers and decisionmakers involved in the subcabinet-level posts that make up that committee of--what is it, five or six?

Mr. FREEMAN. Five different departments, yes.

Senator MELCHER. Five different departments. And, if necessary, at cabinet meetings to impress on the President the need for action.

I have to confess, however, that while I still have faith in Dick's ability, that I don't think it's happened yet. Further, the Special Adviser to the President that we set up as a requirement in the 1985 farm bill to be able to inform the President and to advise him on agricultural trade and aid is well-buried somewhere in the Executive Offices. That's close to the White House, but I don't think the President is aware of his presence as a special adviser. And he reports to some underling of Regan's. I hope that he is elevated a notch or two so he reports to the President.

Now that Regan's gone maybe Howard Baker will find him.

Mr. FREEMAN. Well, it was certainly in the legislative history, and you led in the passage of that provision, that the designee should have direct access and the Adviser should be known as one who can speak for the President, could do so throughout the Government, and could do so with a chief of state of other countries—and it ought to be someone who has the resources and the capacity and the prestige to do that. And I'm sure that the current holder of that office will welcome your help and support, although he didn't authorize me to say.

Senator MELCHER. Thank you, Orville. Senator Bond.

Senator BOND. Thank you very much, Mr. Chairman. Mr. Freeman, it's always good to hear you testify. It is instructive and informative as well, and we express again our thanks for your taking the time to come in.

Mr. FREEMAN. Thank you, sir.

Senator BOND. You described the halcyon days when the action triangle was working, and you suggest that we need to get back to that same sort of emphasis. I'd like for you to give us your views on how the changing world situation might, if at all, affect our ability to move forward in the same way that we had. As we all well know, since those days, when we were moving forward aggressively, where there was great demand for our agricultural products, a number of things went wrong. We had, under several Presidents, grain embargos; we had a value of the dollar that went out of sight; we, through some of the international organizations which we support, encouraged the development of agriculture in other countries. We brought agricultural lands into production. Many of our formerly good customers even began exporting some food products, although still remaining as a market for others.

Do you see those changes in the world situation, particularly the additional land that has been brought into production, as in any way changing our opportunities, limiting them? Do they require

any different strategies than we would have employed 15 to 20 years ago?

Mr. FREEMAN. Well, Senator, I kind of divide this into two areas. One is the market in the industrial world—and we need to move strongly to maintain and hold, and there's a measure of expansion there. But the future, to find a market for our great productivity, simply is not in the industrial countries; their population is stable, their nutrition level is high. And the biggest share of the growth that came in the seventies and into the early eighties—and we reached that pinnacle of $43 billion of exports—was in the developing countries. And today, why, 40 percent of our agricultural exports go there, and even in these tough times, why, that percentage has increased.

Now, the debt overhang obviously is a major problem because countries can't buy, they can't afford it. I hope that serious attention will be given to that by the Congress, and I personally think some of the proposals of Senator Bradley are sound and need to be carefully thought through. If those countries can get their economies moving again and get in a position to buy, the markets are there. And that's the target.

If we can put the three together—we have not, in using commodities for humanitarian purposes, really followed up with the commercial in mind; that's been rather ignored. And the three, I think, need to march together. And to have the kind of political support, why, that's the coalition: private and public and those three goals.

So I feel that the market is there, and I've even gone as far as to say I think if we really put our back into this, we could reach not only $43 billion, but set a target of $50 billion by the early 1990's.

And, mark my words, it will turn around again. We've had three periods of boom and bust in this country for agriculture. Two of them, in the twenties and in the forties, were the direct result of war, and then we really had prosperity in rural America, and we in a sense fed the world. The third one, in the seventies, was in peacetime, and it was a product of some macroeconomic forces around the world, to be sure, but it was basically because we built those markets in the developing countries, and then when surplus turned to shortage, why, then, we quit building and we got in trouble real quick. We had one bad weather year, and it's something about the debt overhang, and I'll predict that in not too many years we will be looking down the tunnel of shortage, as we have before.

Senator BOND. I'd say that our farmers in Missouri have had about 7 bad weather years out of the last dozen or so, so if you would please exclude us from those wishes we would be deeply grateful. But you mentioned the industrialized countries, and you said perhaps we were placing too much emphasis on that.

Would you recommend that we back off from efforts to oppose, for example, either the quotas on soybeans or the most recent proposal of the EC, which I gather is some kind of tax on soybean oils to pay for their program of artificially encouraging surplus production? Isn't that part of the overall export picture, even though it may not be the great new potential?

Mr. FREEMAN. Yes, most emphatically yes. And we are going to have to play some real hard ball.

Senator BOND. Don't you think we have, I mean in the last several years, played some hard ball?

Mr. FREEMAN. We have.

Senator BOND. I would agree that it was a long time coming, but I think that we are beginning to see the results of it, and I think that is a very positive step.

Mr. FREEMAN. I don't want to sound super-critical, but the Common Agricultural Policy of the Community is an abomination.

Senator BOND. How do you really feel about it? [Laughter.]

Mr. FREEMAN.We saw it coming during the Kennedy round, but the geopolitical position of this country was that if the Community succeeds Germany and France will never shoot at each other again. The Community will not succeed and hold together without the Common Agricultural Policy, which is the primary unifying force.

Well, that was kind of hard to fight against, that premise, but we did. But for a country to set the kind of price supports that would bring about the kind of production and to absolutely refuse to do anything to try to manage their supply under those circumstances—and I've fought with the ministers of agriculture of all of them in the OECD, they just wouldn't listen; they said, why, it's politically impossible to do that. And I said you think it's easy in the United States to do it? And they said, well, we just won't do it, and they wouldn't do it.

So they have disrupted and continue to disrupt the world market, and then they say, well, you do it, too. Nonsense. We do some things that are related to agriculture that perhaps have an adverse effect on other countries, but we have not had this kind of dumping that they go on recklessly doing, and it's tough to handle because we export $6 billion there anyway and they have the power to retaliate.

I've been suggesting—I've suggested to Mr. Yeutter, the USTR—that a summit for the major agricultural countries would be in order. If Secretary Baker has a summit of the finance ministers on fiscal and monetary policy, why, to bring together a dozen countries, the major exporters and importers, and take a look at the mess that the world market is in where agriculture is concerned and try to bring some sense to it might work. If you have 97 countries around a table, where GATT's concerned, that takes a lot of doing. You think about doing something in decades, not doing it in years.

That's a long-winded answer, but I feel very emphatically that we can't continue to be just a residual supplier. And I think the world is beginning to get those signals.

Senator BOND. Mr. Freeman, I commend you for fighting the good fight. I apologize, Mr. Chairman—I'm late for another committee meeting, and I look forward to seeing the statements of the other witnesses testifying before us today. We thank you very much for your good guidance.

Thank you, Mr. Chairman.

Senator MELCHER. Orville, one follow-up question. You testified at the hearings on S. 659 that we had on Tuesday afternoon. That bill would set up missions to a number of countries, some of which would be specified. Following that concept, would it be timely now,

as far as you know, to include China, or do you think that China is beyond the stage of needing such a mission?

Mr. FREEMAN. No, I think definitely China should be included, and I think China is going to be a great market for us. They are currently moving into a purchasing position. And looking at the overall picture, in my judgment China will never be able to feed herself; she's got half the arable land that we have and she's got 1 billion people and a very low per capita income. As China begins to increase that per capita income, why, she will become, I think, a major market, and we've got to be very attentive to that very significant potential.

Senator MELCHER. While we have you here, might we ask a basic question on agricultural programs? What are your views on marketing loans?

Mr. FREEMAN. You mean the marketing loan as it now applies to rice and to cotton?

Senator MELCHER. Yes.

Mr. FREEMAN. It's worked very well, it's given the capacity to meet some of the dumping competition that we've had. It's a very costly provision, but it certainly has gotten results where those commodities are concerned.

Senator MELCHER. Some people think we ought to extend it further to other commodities, but, of course, the cost would rise rather rapidly.

Mr. FREEMAN. That's the problem. I mean, as a matter of principle, if it can apply to cotton and to rice, why shouldn't it apply to other commodities where prices are low as well. That is an appropriation, a cost question.

Senator MELCHER. Thank you very much, Orville. Senator Cochran.

Senator COCHRAN. Mr. Chairman, Mr. Secretary.

Mr. FREEMAN. Good morning, sir.

Senator COCHRAN. We welcome you to the hearing. Let me ask you what your reaction is to the proposal that some are making that we cut back production very sharply and escalate the loan rate to high levels? What would this do to our ability to compete in the international marketplace and to export successfully?

Mr. FREEMAN. We wouldn't be able to compete, and we would have to set very stiff quotas, because otherwise production from elsewhere and around the world would come pouring into this country.

Senator COCHRAN. Do you have any reaction?

Mr. FREEMAN. Well, let me just say—again, I apologize if I make reference to my own experience, but when I became Secretary of Agriculture the circumstances were quite comparable to today, but one outstanding difference was that then we had about 10 percent overproduction capacity, and we could do many things then without getting into a complete residual supplier position, that when we have 40 percent overproduction capacity we can't do. It seems to me that the only answer is to export, and to move—the need is there, the potential market is there, the people are there. We proved that we can work with these countries to move them into position where their per capita income increases, and, when it does,

the first thing they want is food, and with many of them, before very long, they can't produce enough to feed themselves.

Now, that's true in Korea, which in 1961 when we started working with President Park—the per capita income in that country was $83; now it's $2,250. The gross national product then was $3 billion; now it's $85 billion. Then they were a zero importer, and now they are a $1 to $2 billion market. Taiwan is another example. At one point Mexico was an example. Mexico will never be able to feed herself, very limited arable land, exploding population. That country is going to be again a great market. Spain is another one. So there are a lot of these countries that I believe an intelligent program could turn many of them around, and we've had a lot of experience at that, we've got a lot of commodities to use, and we just ought to make it, as I said earlier, the forefront of U.S. foreign economic policy, to build our agricultural export markets.

Senator COCHRAN. Thank you very much, Mr. Secretary, for being here.

Senator MELCHER. Thank you, Orville.

Mr. FREEMAN. Thank you, Mr. Chairman.

Senator MELCHER. Our next witness is Dean Kleckner, president of the American Farm Bureau Federation.

Please proceed, Dean.

STATEMENT OF DEAN R. KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. KLECKNER. Thank you, Mr. Chairman. My name is Dean Kleckner and I'm president of the American Farm Bureau Federation. I'm a hog and corn farmer from Rudd, Iowa, in north central Iowa. I will summarize my statement for the subcommittee and would appreciate if the full text would be included as a part of the hearing record.[1]

Mr. Chairman, few would deny that there are problems in the world trading system. U.S. agriculture has felt the repercussions of some of these problems. We've seen weak, ineffective and confusing GATT rules on export subsidies permit the European Community to increase dramatically its net exports of many farm commodities in recent years. Japan and other countries employ import quotas and quantitative restrictions to limit foreign competition in their markets. There are no international rules at all to govern certain trade practices, such as variable import levies. The Farm Bureau believes the solutions to these sorts of problems lie in finding ways to reduce all types of Government intervention in trade.

It's a constant and often uphill battle just to maintain the status quo in market-access opportunities. The recent U.S.-EC dispute resulting from the accession of Spain and Portugal to the Community is an example. Now we are facing new efforts by the EC to impose import restrictions on vegetable oils and meat products. The EC is proposing to tax the consumption of vegetable oil to raise money to help pay for the Common Agricultural Policy. The meat restrictions are nontariff barriers disguised as measures to protect consumers' health.

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[1] See p. 193 for the prepared statement of Mr. Kleckner.

In this environment, to accept the need to reduce trade restrictions and open new markets requires strong political commitments on the part of major trading countries. Such political commitments are traditionally only generated in the context of multilateral trade negotiations.

The Farm Bureau supports the development of trade legislation in the United States. At the same time, we have deep reservations about portions of the various bills that would attempt to legislate more balanced trade through unilateral U.S. import restrictions or mandated U.S. retaliation against foreign trade. Nor should we attempt to mandate increased competitiveness through new import restrictions.

In the long run, Government-induced competitiveness simply camouflages and perpetuates domestic inefficiencies. Nevertheless, the Farm Bureau will continue to oppose imports of products that compete unfairly in our market. Dumped or subsidized goods should be met with compensatory import restrictions to prevent injury to domestic producers.

Our trade laws need to be improved to deal with unfair imports in a quicker, more effective manner.

The Farm Bureau believes that any trade bill should embrace the following general goals—and I list five:

One, it should be export-oriented rather than import-protectionist.

Two, it should aim at getting our own house in order in terms of removing existing barriers to U.S. competitiveness.

Three, it should strengthen our ability to respond to specific foreign unfair trade practices by making the trade complaint process quicker for producers, and by reducing foreign policy influence over legitimate trade concerns.

Fourth, it should promote market-oriented foreign economic development and address the problem of the enormous foreign debt burden in the countries that represent potential growth markets.

And, five, it should not contain specific commodity or bilateral import restrictions that would result in retaliation against U.S. exports, particularly agricultural products.

In addition to these general objectives, the Farm Bureau supports several specific provisions in the trade bill that are outlined in the full text.

With respect to U.S. export programs, I'd like to make one additional point. Many have argued that the United States needs a more comprehensive export subsidy program because the current Export Enhancement Program is not effective. The Farm Bureau believes that U.S. export subsidies should be used to counter foreign subsidized competition. The United States should not embark on an across-the-board export subsidy program along the lines of the European Community. Still, we believe the current EEP system, export enhancement system, could be made to work more effectively if foreign policy considerations would not be allowed to get in the way.

Last year we offered an export enhancement initiative to sell wheat at world prices to the Soviet Union. The uproar was deafening. From within the United States there were complaints of "subsidizing the Russians," even though the prices offered were no

lower than the Soviets would be paying in the open market. From other countries there were complaints of "stealing our markets," even though those countries knew that our long-term grain agreement stipulated Soviet purchases of 4 million tons of wheat a year from the United States—and at that time they had only purchased 150,000 tons.

As everyone knows, a U.S. sale never took place because the Soviets could still buy wheat at a lower price on the world market.

So far, this marketing year, the European Community has sold over 5 million tons of heavily subsidized wheat to the U.S.S.R. The United States has sold none. What our farmers wonder now is where is the uproar in Europe over EC subsidies. The Soviet flour mill pays less than half for French wheat than does the French miller. Our farmers wonder where is the uproar from other wheat exporters. Last year Australia sent a high-level delegation to the United States to protest a sale we never made. Where is the uproar in the United States? If the United States shouldn't subsidize the Russians, why should Europe?

The folly of the whole thing is that American farmers, who rely on exports for about one-third of our sales, are caught in the middle. Once again, much like the grain embargo, U.S. trade policy is taking a back seat to foreign policy considerations.

Our policy with respect to export subsidies should do three things.

One, neutralize the advantage of foreign subsidies in markets where U.S. products are trying to compete.

Two, minimize the adverse impact on nonsubsidizing countries.

And, three, support efforts to achieve a phase-out of all export subsidies under the GATT.

To accomplish these objectives, the U.S. counter-subsidy program must be designed to work automatically where foreign subsidies are identified, and to cease automatically when foreign subsidies cease. We are concerned in Farm Bureau that an across-the-board program might become as entrenched as the EC's and thereby accomplish none of these three objectives.

The Farm Bureau requests that the Agriculture Committee take these views and concerns into account in helping to develop trade legislation that could determine the course of world trade for years to come.

Mr. Chairman, I appreciate the opportunity to testify here today before you.

Senator MELCHER. Dean, thank you very much. You're a corn and hog farmer in north-central Iowa?

Mr. KLECKNER. Yes, sir.

Senator MELCHER. Which county?

Mr. KLECKNER. The little town of Rudd; it's near Mason City, Iowa.

Senator MELCHER. I was born in Woodbury County, in Sioux City, and so we are not too far apart.

Mr. KLECKNER. Yes.

Senator MELCHER. You mentioned that we did offer the export enhancement initiative to the Soviet Union last year for a period of several months, and they didn't take us up on it. Isn't it pretty clear that we are the sellers of last resort of wheat to the Soviets?

Mr. KLECKNER. Yes, it's perceived to be that way, and very often it is that way, we are the sellers of last resort, or the residual supplier. It almost seems to me that the Russians particularly would rather make us the residual supplier, although I understand they have said now in some areas of other grains that all we have to do is offer them the price and they will buy it from us.

But, yes, I would agree in general with your statement.

Senator MELCHER. I think that might be true almost any time, but it was almost a certainty after the 1980 embargo that we would be the last ones they would want to buy from. I think that's very understandable.

We had a hearing Tuesday afternoon on a bill that Senators Leahy, Pryor, Daschle, and myself put together, S. 659. The National Association of Wheat Growers has estimated that passage of the bill could result in an increase in export of over 17 million tons of wheat, corn, soybeans, and a little dairy.

That sort of dwarfs anything we are talking about with the Soviets, does it not?

Mr. KLECKNER. Yes, I've got to admit, Senator, there have been many bills introduced dealing with trade, and I'm not real familiar with S. 659. Our staff is analyzing many of these. I have to always stop and think and convert bushels into million metric tons. Let's see, of wheat a million metric tons is about 36 or 37 million bushels.

Senator MELCHER. Right.

Mr. KLECKNER. About 40.

Senator MELCHER. Yes.

Mr. KLECKNER. Just under 40. That would be dramatic and sizable. In general we are in support of food aid and these types of arrangements. Our concern would always be whether these things replace commercial sales, and that would have to be everyone's concern. The Farm Bureau would be very happy to work with you and the committee or any agency of Government to develop something along these lines. I would have to see some particulars of the bill because I'm just not that familiar with it.

Senator MELCHER. I think we'd appreciate your consideration of the bill. I note your testimony is not attempting to set up trade barriers or invite retaliation as a policy. I would point out that I don't think you'll find any problem with that in that particular bill.

The Chairman is here now.

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR [presiding]. I apologize for being late, Dean. I've already heard from our staff people here that Orville Freeman, our former Secretary of Agriculture, presented some of the finest testimony that this committee has ever heard, and I'm certainly sorry that I missed that. I look forward to reading your testimony later, Mr. Secretary. I've long been an admirer of his, and once again I apologize for missing it.

We were having a hearing over on the House side about the new census that will be beginning very soon, the preparation for it, get-

ting ready for 1990. I didn't realize there was so much interest in counting people in our country, but there are a lot of census watchers around this town. I was amazed to see the turnout there.

You know, I feel, Dean—and I think Senator Melcher may share in this, and a lot of the members on this committee—that we have forced our farmers across America not to compete with themselves but to compete with governments. I think we are forcing our farmers to compete with governments. This is a troublesome thing, because we've seen time and time again—and you've talked about the Soviet wheat situation—where our own State Department has moved in and has presented obstacles and impediments to that trade and to those sales. Years ago I attempted to have created an Under Secretary of Agriculture in the State Department. That didn't go very far; it was watered down, and finally they named someone over there, who I think, got lost, fell through the cracks.

I just returned from the Soviet Union. I took some agriculture and business leaders from our State. There were 25 individuals on our trip. I found a real willingness—I don't think I'm naive about this—to trade with the United States. They are interested in price, they are interested in quality, they are interested in delivery. But I found also a real frustration on their part about not knowing how the decisions are made in our system as to whether these sales are going to actually be consummated and deliveries brought about. I just wanted to bring that to your attention, and I look forward to maybe even discussing it. I even suggested to the Soviets, respectfully, that each of the 50 Farm Bureau presidents get in an airplane and go to the Soviet Union, talk to them—I believe we can talk, and I believe they can trade with us.

I have one question about the marketing loan. They are going to buy a lot of soybeans and they are going to buy a lot of corn, they are going to buy a lot of commodities. Do you think the marketing loan would put us in a competitive position with the Soviets where they might look more favorably about buying if the price were right? If we applied it other than to rice and cotton.

Mr. KLECKNER. Mr. Chairman, Senator Melcher asked Orville Freeman the same question concerning the marketing loan, and you weren't here to hear his answer, but I agree very much with what Mr. Freeman said. The marketing loan has worked very well for rice and cotton. But it is very costly, and the wheat-feed grain-soybean areas are much-larger-volume areas than are rice and cotton, so you'd have to be prepared to spend a lot of money and get that money from somewhere.

As a farmer and raising corn and soybeans, not wheat, what I would suggest, that the PIK certificates, the generic certificates really have the effect of a marketing loan for wheat and corn. Not true with soybeans. Soybeans in my view is the one major commodity now in this country, export commodity, that is in the most trouble, uncompetitive in relation to wheat and corn prices, so shifts are being made not only in this country but South America and other oilseed-producing nations into soybeans and competing oil seeds that is going to cause increasing problems.

So the marketing loan, to summarize, has worked where you've used it; I don't think it would be logical to assume that it could get the same kick, though, in corn and wheat, because you have it par-

tially with the PIK certificates, generic certificates. In soybeans, something needs to be done along that line, or something else. But be prepared to pay the bill.

Senator PRYOR. Well, I appreciate your answer. We have just received a white paper on the rice aspect of marketing loan, and I would like at this point to put into the record of this hearing for our colleagues a table relating to the costs of the marketing loan for rice. Yes, we all anticipate a very major start-up price until we get these surpluses down—in 1986 about $300 million; 1987, this year, we are anticipating that going down to about $200 million; in 1988 the Federal cost down to about $150 million; 1989 somewhere in the neighborhood of $25 million. So we are seeing, according to this graph and table, a very dramatic decrease in the exposure of the Federal Government and the Federal taxpayer.

We also sense that we are getting some of our customers back that we've lost in rice and in cotton. I'd like to put that in the record at this point; it does come from a white paper that the rice industry has had prepared.

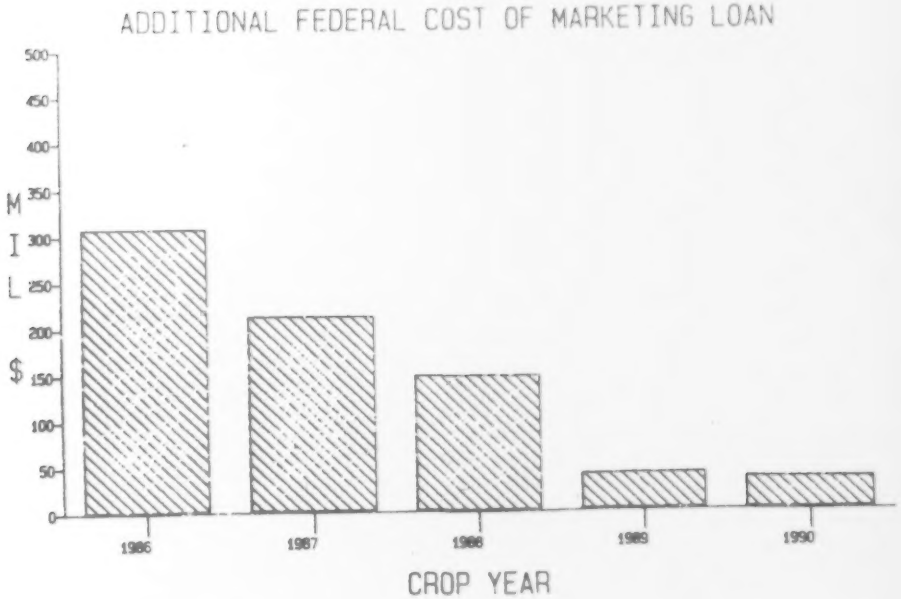
[The following graph and table was received for the record:]

Government Costs

Federal budget costs for the marketing loan program differ in various ways from those for the basic loan. Marketing loan costs total $744 million more than the basic loan over the 5-year period because increased deficiency and marketing loan payments are not fully offset by elimination of paid land diversion and savings on loan outlays and storage costs. But it is important to note that these differences in costs are heavily front-loaded, with more than 70 percent incurred or set by the already-announced 1987/88 rice program. Differences in costs for the remaining 3 years covered by the 1985 Farm Act are estimated at only $223 million, which is less than the $247 million of additional federal tax revenues that the marketing loan generates in that 3-year period. In addition, whatever the time frame, these differences in Federal budget costs must be viewed in relation to varying local economic benefits of the alternative programs. These benefits are discussed in the next section.

Differences in Federal Budget Costs
Attributable to Marketing Loan

	Cumulative Increase (Decrease)	
	Full 5 Years	Final 3 Years
	---million dollars---	
Deficiency payments	846	663
Diversion payments	(900)	(675)
Market loan payments	1,543	716
Net loan/purchase	(301)	(112)
CCC storage costs	(692)	(322)
CCC inventory loss	43	(48)
Total	739	222
Payment limit	5	1
Total	744	223



Senator PRYOR. Now, do you feel that the marketing loan, in our Uruguay round of talks, has had any leverage? I have noticed—for example, the Thais have been on several occasions into my office in the last year to talk about marketing loan for rice; I've noticed the Australians are concerned about whether we are moving in this direction.

Has this served as any leverage for us in these talks?

Mr. KLECKNER. Mr. Chairman, it probably has. I was in Punta del Este at the ministerial round for that week that we were there, and watched and hopefully gave a little advice—but was an observer. I think everything that we have done, most of the things that we've done in the 1985 farm bill have given us leverage in the upcoming round. The 1985 farm bill was severely criticized by almost everybody; it was like an illegitimate, unwanted child—nobody claimed it. But now it's getting a few backers. In fact, many groups, including Farm Bureau and other farm commodity groups, are in support of not reopening the 1985 farm bill. It seems to me that the marketing loan as well as other provisions of it have given us some leverage. I met yesterday afternoon with Secretary Lyng and Ambassador Yeutter, along with some other people, on the Agricultural Policy Advisory Council, and we want a fast track in Geneva.

In fact, could I suggest, Mr.Chairman, that it would not at all be out of line to have our negotiators say that we want to get this agricultural part of it agreed to in 2 years. That's not the traditional time. I would suggest that we'd still be negotiating at Punta del Este if Ambassador Yeutter had not said: our plane is leaving Saturday morning at the end of the first week. They could still be there—I wouldn't be there.

But we could still be going 6 years in Geneva—that's the usual, 5 or 6 years. It could be done in 2 years if we make up our minds. You know, R&D means to most people "research and development." I think it ought to mean in this case "resolution and deadline." Say at the end of 1988 to the negotiators in Geneva: we are leaving if we don't have some agreement. And we ought to be able to get it in 2 years, and they ought to be able to get it in 2 years.

Senator PRYOR. I certainly share your belief in that area.

Dean, I have no further questions—possibly a couple for the record that I might like to ask. We do have sort of a full group still to come, and I'm going to express the gratitude of this committee to you now and our sincere appreciation for you and your statement.

Mr. KLECKNER. Thank you, Mr. Chairman.

Senator PRYOR. Thank you very much.

We have Mr. Allan Mendelowitz from the National Security and International Affairs Division, General Accounting Office, and Mr. Phillip Thomas, who is group director for agricultural trade.

STATEMENT OF ALLAN I. MENDELOWITZ, SENIOR ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY PHILLIP J. THOMAS, GROUP DIRECTOR FOR AGRICULTURAL TRADE

Mr. MENDELOWITZ. Mr. Chairman, with your permission I'd like to introduce my colleagues who are with me today. On my right is Stanton Rothouse, who's a project manager on a number of the assignments we've undertaken on agricultural trade. On my immediate left is Phil Thomas, group director responsible for agricultural trade work. And on my far left is Barbara Schmitt, who headed up one of our international agricultural trade assignments.

Senator PRYOR. We welcome all of you here this morning. I know you have a statement. Do you want to read it or summarize it?

Mr. MENDELOWITZ. I think if we took a vote it would be about 57 to nothing for summarizing.

Senator PRYOR. I know I would vote that way. I don't know about the rest. [Laughter.]

Mr. MENDELOWITZ. So with your permission I will just try, in a few minutes, to cover some of the summary points and submit the full statement for the record.[1]

We are pleased to be here to discuss with you our recent work on agricultural trade and observations on some of the current agriculture trade legislation. My statement summarizes our work on the Export Enhancement Program and the foreign market Development Cooperator Program. Each of these export programs and activities is included in many of the agricultural trade legislation proposals being reviewed by this committee and the Congress. And, as such, I think our work has some relevance to the legislation.

Under the Export Enhancement Program, exports of wheat and wheat flour have increased for several markets targeted under the EEP during the last year, but these have been offset by decreased exports to other markets, especially the Soviet Union.

Increases in exports to targeted markets probably can be attributed largely to the fact that the EEP, coupled with sufficient export credit guarantees, was available. It is clear that targeted importing countries have been beneficiaries under the EEP, as they have received wheat and other agricultural commodities at lower prices. The design of the EEP restricted its effectiveness in substantially increasing U.S. exports. The program is targeted against the European Community, not against all U.S. competitors, and, consequently, the number of markets that could be targeted was limited. Efforts were made not to harm the countries identified as nonsubsidizers, even though these countries had increased their shares of particular markets, at least as much as the European Community.

Furthermore, the Soviet Union, the largest importer of wheat and a market in which the European Community had significantly increased its share, was not made eligible for foreign policy reasons until August 1986, and then only for 2 months instead of the usual 1 year, and with bonus amounts prescribed at relatively low levels.

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[1] See p. 195 for the prepared statement of Mr. Mendelowitz.

Although the EEP in its restricted form appears to have increased selected U.S. agricultural exports in many targeted countries, there is little reason to believe that, once the EEP expires, these gains in U.S. agricultural exports will be sustained in targeted markets without fundamental changes in the market. Although the decline in the value of the dollar and lower loan rates may make the price of U.S. wheat more competitive in the international market place, it is extremely doubtful that U.S. wheat flour, poultry, or dairy cattle, for example, could be exported at competitive prices once the subsidy program expires without major changes in the European Community's subsidy policies.

We believe that the EEP, combined with the dollar's decline and lower loan rates, has increased the financial cost of the European Community's Common Agricultural Policy, particularly through increased subsidy payments, and has contributed to realizing agreement to include agricultural subsidies in the new round of multilateral trade negotiations under the GATT.

The world agricultural market is experiencing a major change, as reflected in the tremendous overproduction and surpluses of major crops throughout the world. U.S. and European Community pricing policies, accelerated adoption of improved technology, and increased emphasis on agricultural self-sufficiency in developing countries, have increased agricultural production worldwide. Countries which were once net agricultural importers have become net exporters.

Additionally, developing countries faced with widespread economic problems are importing less food and feed grains. These changes in the world market require major modifications in agricultural policies and programs of traditional agricultural producers and exporters, such as the United States and the European Community. While the need for major changes in the farm policies and programs of these countries is great, little change has yet taken place as their governments continue to try to adjust programs suited to a different era. The EEP is in essence a bridge program at best. The program as implemented deals with the symptoms, not the fundamental causes, of the problems facing U.S. agriculture. Although the EEP may have some effect in encouraging the Community to negotiate, it does not increase world demand for exports in a period of overproduction and surpluses. More fundamental changes are needed to restore equilibrium.

With respect to the cooperator market development program, we looked at the basic legislation and what the programs were and how they were operating. The legislative history contains no indication as to how the goal of expanding foreign agricultural markets is to be achieved. FAS made administrative and financial determinations as to program implementation, but few restrictions on total funding a cooperator can receive for a specific program, how long a cooperator can receive funding for that program, and what constitutes a successful program.

FAS planning and evaluation strategies, including the benefit-cost ratios calculated by cooperators and intended by FAS to help measure program effectiveness, use overly optimistic assumptions about the market situation. FAS has conducted just 19 annual evaluations, a small number considering that it funds over 1,200 coun-

try programs each year. Further, some annual evaluations misstate the results and exaggerate the outcome of the program.

We analyzed the market development plans, end-of-year reports, and income statements of various cooperators and found that, for the most part, cooperator contributions to the programs are primarily goods and services contributions rather than cash contributions as the FAS title "cash contribution" would indicate. Cooperators state that these goods and services contributions represent cash expenditures in support of approved marketing activities. FAS officials said that they do not scrutinize cooperator contributions carefully and have little assurance that they are accurately reported. Thus we believe that the FAS data indicating that there is about a one-third sharing of program costs among FAS, cooperators, and foreign third parties, conveys the impression that cooperators are financing the program more fully than actually occurs. FAS is paying the majority of the direct and overseas costs of the program and assuming all the financing risk.

We recommend that the Secretary of Agriculture direct the Administrator of FAS to take some actions: clarify cooperator goals and establish standards for limits on total funding levels per program and timeframes for individual program funding; revise FAS guidelines to require the inclusion of measurable goals in cooperator market development plans and that the Secretary of Agriculture consider and report to the Congress the possibility of redirecting some USDA resources to FAS's compliance review staff to allow more complete review of cooperator compliance with FAS guidelines.

With respect to legislation being considered, we believe that title VII of S. 490, the Senate omnibus trade bill, also introduced in the Senate as S. 512, provides a framework for improved management of export promotion and foreign market development activities. More emphasis on market development, better coordination of existing and newly established programs and activities, better program evaluation—and that's especially true in light of what we found with respect to the cooperator program—greater flexibility in use of agricultural attachés, more emphasis on new markets and value-added commodities, and so on, appear to be a positive response to increasing foreign competition.

Proposed funding increases for trade shows and exhibitions, for general management support for export programs, and for additional personnel seem appropriate.

It's clear that many new export programs of the Food Security Act of 1985 have challenged the adequacy of the existing FAS resources.

We also believe that the general negotiating objectives of the title with respect to our objectives of the GATT are consistent with our current trade policy objectives and responsive to the major agricultural trade problems identified earlier in my statement.

We would especially like to underscore, though, the importance we place on reciprocal reduction in agricultural subsidies in any multilateral negotiations.

The proposed use in title VII of CCC commodities by cooperators for demonstration projects does raise some questions. There are

limitations to the use of these commodities, and it's unclear how many cooperators could participate in such projects.

Title VII of H.R. 3, one of the other bills that you sent us, the omnibus House trade bill, calls for an extensive reorganization of the U.S. agricultural trade apparatus in the executive branch. Many of the proposed changes are consistent with the July 1986 report of the National Commission on Agricultural Trade and Export Policy.

The agricultural title of the House trade bill significantly restructures and reorients the U.S. agricultural bureaucracy in an effort to improve U.S. competitiveness abroad. Because of its comprehensive nature, many agencies, interest groups, and U.S. policies will be affected, which we think raises serious questions about the practicality and the desirability of such an ambitious reorganization proposal in the legislation.

Another alternative legislative proposal advanced is Senate bill S. 310, the Agricultural Export Enhancement Act of 1987. It is similar to provisions in H.R. 3. S. 310 would broaden the range of countries eligible under the Export Enhancement Program. S. 310 provides a detailed and complex methodology for determining which countries would be eligible and how bonus commodities would be allocated. Both that provision, H.R. 3, and S. 310, raise questions concerning the cost of an expanded Export Enhancement Program and its impact on the U.S. and world markets, U.S. trade relations with other countries, and U.S. negotiations in the current round of multilateral trade negotiations.

Basically, two of the three legislative proposals modify the Export Enhancement Program. Neither one proposes increasing the value of commodities to be used annually. Proposed targeting criteria would substantially broaden the program. With the recent expansion of EEP activities, it is probable that the maximum allocation of $1.5 billion in CCC commodities over 3 years will be used.

If a broadening of criteria were adopted, the existing authorization would likely be inadequate. Furthermore, an increase in commodities released by CCC could also cause budgetary outlays.

Mr. Chairman, let me close by observing that the Food Security Act of 1985 and existing trade legislation, provide considerable discretionary authority for the administration to develop a more assertive agricultural trade policy and programs, if it so wishes. Legislation being considered basically would require that such initiatives be taken in response to the administration not making full use of its current authority.

This concludes my summary comments, and we'll be happy to try to answer any questions you have.

Senator PRYOR. Thank you very much. Now, do the other members of your group have a statement, or are they there just to keep you out of hot water?

Mr. MENDELOWITZ. I think the major difference between a representative of the administration and a representative of the General Accounting Office is that when a representative of the administration appears, he gets into trouble if he doesn't accurately reflect the views and policies of his superiors; when a representative of the General Accounting Office appears, he gets into trouble if he doesn't accurately reflect the findings and conclusions of his staff.

So I'm always delighted to bring my excellent staff with me to help answer questions.

Senator PRYOR. We are glad that they are here. Now, on page 12 of your statement, the second paragraph, you state, "Although the EEP in its restricted form appears to have increased selected U.S. agricultural exports in many targeted countries, there is little reason to believe that once the EEP expires these gains in U.S. agricultural exports will be sustained in targeted markets . . ."

Now, what changes do you recommend that we make in this area to sustain basically those growths and to keep those customers that we have made, that we have been selling to?

Mr. MENDELOWITZ. Well, basically we view the EEP, as I indicated, as a bridge program. It was a way of reducing the price of U.S. agricultural exports from the U.S. price to the lower world price so that they could compete in those markets.

To the extent that changes are made, reduced loan rates, marketing loan programs, any number of alternatives that would reduce the U.S. price to the world price, we would have a fundamental change that would make U.S. commodities again competitive in all markets in the world.

Senator PRYOR. What about on page 25 in your statement, you say, "The Soviets have been successful in buying wheat on the world market from foreign competitors at prices well below those offered by U.S. suppliers."

Now, it looks to me like that we have a head-on collision with interpretation and communication: they look at prevailing market prices to be the agreement, we look at U.S. domestic prices to be the agreement.

How would you recommend we resolve this dispute?

Mr. MENDELOWITZ. You've asked a very difficult question, I think, because when we've looked at the bilateral grain agreement between the United States and the Soviet Union as part of our broader effort to look at bilateral grain agreements, what we found was that they have no enforcement mechanisms. There's no way——

Senator PRYOR. The agreements have no enforcement mechanisms.

Mr. MENDELOWITZ. The agreements have no enforcement mechanisms, so that should a party not fulfill its commitments or obligations under the agreement, there is nothing that the other party can do to enforce that.

I think that you have correctly fingered the major dispute between the United States and the Soviet Union with respect to our current long-term bilateral agreement, and that is the agreement says "price." The United States has interpreted it as U.S. price, the Soviets have interpreted it as world price, and because there is no enforcement mechanism we cannot force the Soviets to buy grain from us at prices higher than the world market.

Senator PRYOR. If we continue with this position, and if we don't, let's say, give a little bit on this position and say that this agreement means U.S. domestic prices, aren't we in effect as a country saying we are not going to trade with the Soviets?

Mr. MENDELOWITZ. I think that's a fair assessment of what we are saying in this case.

Senator PRYOR. Is that our policy?

Mr. MENDELOWITZ. I don't think it's our official policy not to trade with the Soviets, but I think it's unrealistic to expect the Soviets to spend more per bushel for U.S. commodities than they would have to spend on world markets.

I appeared at an earlier hearing where we concentrated in some depth on the EEP. The issue came up as to what exactly the Soviets would be getting out of their being targeted under the EEP, that is, whether in fact we would be subsidizing the Soviets. We observed quite explicitly that we did not view that targeting the Soviets under the EEP which would price our commodities at the same level as the rest of the world should be viewed as us giving the Soviets anything. If the Soviets can buy that grain elsewhere in the world at a lower price, then we are not conferring any benefit upon them that they are not already achieving through open-market purchases.

Senator PRYOR. Do you think—and, by the way, you've done a lot of research, you and your staff, on these issues—do you think the Communist countries should receive some special treatment under the EEP program to establish a relationship there?

Mr. MENDELOWITZ. I don't think that we need to give them special treatment. I think that the bilateral long-term agreement represents the parameters of what we need in dealing with a large potentially monopsonistic purchaser like the Soviet Union. Because its needs are so great, because the Soviets can step into the market and make a number of large purchases simultaneously, they can have a major impact on what happens to the price of the commodity in the United States or world market. Therefore the bilateral agreement, with minimum and maximum quantities, with notification requirements, I think, provides the basic kind of stability that you need to deal with special circumstances when you have a large state trading organization buying in the market.

I think that if we want to sell to the Soviet Union, what we should do is do the same thing we did elsewhere in markets that we have targeted under the EEP, and that is provide an EEP offer that in fact lowers the price to the purchaser of U.S. commodities to the world price.

Senator PRYOR. Do you think right now the Soviets, that their mindset is that they are going to buy at the lowest price, or what factors do they look for? I know we heard a lot about are you going to supply what we contract for? We hear that many, many times. Where is your thinking there?

Mr. MENDELOWITZ. You know, one thing I've always been impressed about with respect to the Soviet participation in the world grain market is that they may be a Communist country, but they seem to know a lot about buying and selling in markets; they seem to be pretty savvy free traders—not free as we understand the term—but they seem to understand markets and they know how to use them to their advantage. I think we've offered EEP commodities to other centrally planned economies—we've offered them to Poland now, we've offered them to the PRC, we are offering them to Yugoslavia—we are successfully dealing with centrally planned economies under the EEP. I think that basically the Soviets are out there trying to get the best price they can—they are good traders;

they are trying to get what they can for the best price. If we offer them a commodity at a price above the world price, they aren't going to take it.

Senator PRYOR. Do you have any suggestions for this committee about what we might do to allow our farmers to more readily and competitively compete in agricultural trade, as we did in the past?

Do you want to think about that and put it in writing?

Mr. MENDELOWITZ. I'll try to give an answer.

Senator PRYOR. Well, let me just back up. The purpose, of course, of this series of hearings, is to come forward with a section to put in the omnibus trade bill, and that is going to be what we attempt to attain—and it's quite a challenge. Once again I'll ask if you have any suggestions for us in making competitiveness once again a reality.

Mr. MENDELOWITZ. Mr. Chairman, my staff has been working very closely with the staff of this committee in helping to write the provisions of the various trade bills dealing with agricultural trade, and basically what I would like to commit to, by way of an answer to your question, is a continued close working relationship with the staff of this committee to provide whatever assistance we can in the actual drafting of legislation. We are available to do analysis, we are able to draw on the work that we've done, we are available to review proposals, using the research that we've done on behalf of the Congress as a frame of reference to establish how effective we think they are going to be.

In terms of restoring the United States to competitiveness, I think that we should place great emphasis on our GATT negotiations with the objective in this round of achieving a major change in the accepted rules for agricultural trade.

As you know, traditional GATT disciplines over export subsidies, government interference in markets, import restrictions do not apply to primary products, essentially agriculture, primarily because of an exemption in the GATT from these disciplines that was put in at the request of the United States many years ago.

I think that an effort to create a new set of rules that applies the accepted GATT discipline to agriculture would be an important step forward. Obviously I think the key to progress is the negotiating position of the Common Market. As such, we believe that the EEP and other efforts are putting financial pressure on the Common Market and that we should keep that pressure up, because I think if we make their subsidy programs too expensive for them, we can make progress in trying to eliminate subsidies as a major determinant of who exports what to where.

Senator PRYOR. On behalf of the committee, I want to thank you. I want to really applaud you for the statement that you have prepared. It is a very lengthy statement, I might say; however, the information that you have supplied to us will be very, very beneficial to this committee in attempting to come forward with a section relative to agricultural trade in the trade bill. We are very indebted to you and your staff and very grateful. Thank you.

Mr. MENDELOWITZ. Thank you very much, Mr. Chairman.

Senator PRYOR. Our next witness is Bart Fisher. Mr. Fisher is quite an authority, I think, on section 301, and I think most of your

testimony, Bart, is going to relate to section 301, if I'm not mistaken.

Mr. FISHER. That's right, Mr. Chairman.

Senator PRYOR. We look forward to your statement. If you don't mind, if you would summarize, and then we will proceed with questions.

STATEMENT OF BART S. FISHER, PROFESSORIAL LECTURER IN INTERNATIONAL RELATIONS, JOHNS HOPKINS SCHOOL OF ADVANCED INTERNATIONAL STUDIES

Mr. FISHER. Thank you, Mr. Chairman. My name is Bart Fisher, and I'm a partner in the law firm of Patton, Boggs, and Blow in Washington, D.C., and professorial lecturer in international relations at the Johns Hopkins School of Advanced International Studies.[1] I'm appearing here this morning in my capacity as an individual; I'm not representing any particular interest, although I am sort of a hired gun representing a lot of people in 301 cases. But I'm on my own this morning.

I've been asked by the committee to address the changes in the foreign trade laws of the United States that are needed to promote U.S. agricultural exports, and you've heard excellent testimony so far on the particular barriers there are to U.S. agricultural exports. There's no doubt that these barriers are a key part of the decline in U.S. agricultural exports.

My area of interest and expertise is in the use of the legal tools designed to promote U.S. agricultural exports—and I will address that subject.

The key legal mechanism that we have to deal with, Mr. Chairman, is section 301 of the Trade Act of 1974. Section 301 is the legal armor for U.S. agricultural interests seeking to do battle in the world market place, and its role is to counter the neomercantilism which exists with regard to import limitations and export subsidies.

My thesis this morning is that section 301 of the Trade Act of 1974, as amended, is not working as effectively as it should be to promote U.S. agricultural exports, and requires four key structural reforms. If Congress does not reform section 301, then U.S. agricultural exports will decline even more precipitously as the trend toward mercantilism increases. You've heard a lot of horror stories this morning already about foreign trade barriers, and you will hear more from the panel that follows me. The issue I'm going to address is what should you do, what can you do legally now, to counter them, if you want

In summary fashion I want to explain how 301 works a little bit so you can appreciate the reforms that are needed.

Basically the system works in the following way. I want to give you a concrete example. Let's assume that U.S. rice is being kept out of Japan, as the government of Japan would simply refuse to give import licenses. The U.S. rice industry would then file a petition with the U.S. Trade Representative's office under 301, alleging

[1] See p. 208 for the prepared statement of Mr. Fisher.

that this practice is unjustifiable, contrary to international trade agreements, unreasonable and discriminatory.

As you well know, Mr. Chairman, this is not a hypothetical example I'm providing the committee. Japan does in fact keep out U.S. rice and the U.S. rice industry did file a section 301 complaint alleging that this was unreasonable and violated the GATT.

Now, following 45 days, the U.S.T.R. must decide whether or not to accept a 301 petition and initiate an investigation. And that's a very key decision for the petitioner. Until that point, the petitioner is merely a supplicant seeking U.S. Government assistance; after that point the leverage should shift in favor of the petitioner.

In fact, however, following acceptance of a section 301 petition, section 303 of the Trade Act of 1974 requires the U.S.T.R. to refer the matter to the dispute resolution procedure of the appropriate trade agreement, "if the case involves a trade agreement."

Thus, in the Japan hypothetical I gave you, the U.S.T.R. would have to refer the petition to the GATT resolution, as Japan in fact is violating article 11 of the GATT through its zero quota for rice.

Mr. Chairman, I can assure you that this section 303 is a disaster for U.S. agricultural interests because the problem is that the GATT dispute resolution procedure simply doesn't work; it's been ineffective when U.S. agricultural interests have been involved. I want to emphasize that the GATT dispute resolution procedures do work in a much more effective fashion regarding industrial products. With regard to agricultural products, however, the GATT dispute resolution process is very slow, very politicized, and incapable of producing binding sanctions. Of course, this is a general reflection of the problem with agricultural trade disputes, but it should not be accepted by the Congress as a surrogate for prompt and effective retaliation to secure needed foreign market access. I've attached a very lengthy table to my prepared statement describing the long and tortuous path that prior section 301 agricultural complaints have followed. (See page 216 for the table.)

I want to give three examples to make the point. First is the *Florida Citrus Commission* case. In 1976 that case was filed, and that has taken 11 unsatisfactory years. Similarly the *Millers National Federation* case involving violations of the Common Market's wheat export subsidies also remains unresolved 12 years later. And, finally, in 1986 a GATT panel ruled against the Common Market for its alleged violation of the GATT on canned peaches, canned pears, and raisins; then the EC got that reversed, because they didn't like the decision—and so that thing is still going on.

I don't want the U.S. rice industry and other U.S. agricultural groups to fall into the same black hole with the GATT that has enveloped the citrus, the wheat, and the raisin industries. I've just given you only three examples.

So I urge you to strengthen the hand of the U.S.T.R. in dealing with illegal foreign trade barriers that confront U.S. agricultural exports. Perhaps the most compelling case is the one of rice that I mentioned. Ambassador Yeutter found that Japan was in fact violating the GATT, but he did not refer the case to the GATT and did not accept the petition, and in formally rejecting the RMA petition, Ambassador Yeutter said that if he were to accept the com-

plaint, he would have to turn the whole matter over to a GATT panel, and he said that's unlikely to produce any progress. So the net result was that, unfortunately, under the current law, Ambassador Yeutter was forced to protect the lawbreaker, Japan, by rejecting the RMA section 301 petition.

I would submit to this committee that something is dreadfully wrong with the legal system that rewards Japan for keeping out U.S. rice on the grounds that the U.S.T.R. is precluded from unilaterally taking action to protect U.S. agricultural products.

Senator PRYOR. May I interrupt you right there, Mr. Fisher?

Mr. FISHER. Please do.

Senator PRYOR. Why did our U.S.T.R. take the position he did?

Mr. FISHER. I wish I knew; I think it reflected a lack of political backbone by the administration to tackle a very difficult problem with Japan. I think Ambassador Yeutter felt that this issue should be resolved in the broader multilateral forum of the Uruguay round.

Of course, that's a very lengthy procedure, and justice delayed is justice denied, as far as the rice industry is concerned. But I think it was a lack of backbone and political will by the administration.

Senator PRYOR. Now, must all agricultural cases be automatically referred to the GATT, and what happens when they are?

Mr. FISHER. Well, that's the first reform that needs to be made. There is mandatory GATT referral if the issue involves a trade agreement like the GATT, and so the rice case, for example, does involve article 11 of the GATT, which deals with quotas, so it would automatically have to go to the GATT. You are hearing a lot about Common Market export subsidies. Those involve articles 6 and 16 of the GATT, and so they would end up in the GATT, and, of course, there is a subsidies code with a dispute resolution procedure that takes a long time.

So the real question is can't we reform that so the discretion remains with the U.S. Trade Representative to handle the case here, either unilaterally or bilaterally, through consultations with the offending trade partner.

But the current system doesn't work. Basically the U.S.T.R. has to flip the whole thing into the GATT, and the GATT sits on it for 20 years and nothing happens. It's like a Dorothy Parker short story: nothing ever happens; you read for 50 pages, at the end of 50 pages nothing has happened.

Senator PRYOR. Now, I am, along with some of my colleagues, attempting, with S. 512, to give the U.S.T.R. some additional discretion and some additional muscle. But right now I'm not sure that, even though I'm supportive of my legislation, under the present circumstances that additional muscle would do it. We've got to have a resolution, we've got to have somebody who is committed and resolved to solving this problem. And right now I sense that we don't.

I'm not talking about Ambassador Yeutter himself—I admire him very much.

Mr. FISHER. I do, too, he's a fine man. There are two problems. One is the legal authority. I had a meeting with Alan Holmer, general counsel to the U.S. Trade Representative, and he turned to me and he says: Mr. Fisher, if there is any way legally you can write a

brief telling us that this case doesn't have to go to the GATT, please do that. I mean, they were looking for a way. And so what they were saying was that Congress had tied the hands of the President in this kind of case, and that it had to go to the GATT. So the only answer is to come back to the Congress and say, well, okay, number one, change the law so that you have discretion: you can do it here or refer to the GATT. Secondly, I agree with you, it takes a political will once you have that discretion to use it.

Senator PRYOR. I interrupted your statement. Go ahead. I must say that probably in about 5 minutes we will have to get on with the next panel.

Mr. FISHER. Well, basically, we covered the first point. There are four reforms that are needed. The first one is in your bill, Senator, in S. 512; it would amend 303. I think that's an important reform.

The second one is recognized by everybody who has testified this morning, and the administration itself, which is, you need time limitations on the dispute resolution process. The administration proposed a 24-month time limitation, and I would agree with that. So that's another needed reform.

Basically what I am proposing is a two-track system, so if the U.S.T.R. would decide to refer the case to the GATT, there would be a 2-year time limitation. For complaints handled here unilaterally, there would be the basket 12-month provision.

Third, we need to redefine the word "unreasonable" in 301, because another point everybody has made so far is that the governments are really involved in this, and 301, in its definition of the term "unreasonable," doesn't reach the issue of foreign government behavior, because with U.S. agricultural exporters frequently foreign governments are their largest purchasers. So you need to clarify the definition of "unreasonable," and say the failure of a government to grant import licenses for competitively priced commodities and the operation of a state trading enterprise or government procurement policies as an import-restricting device would also be deemed to be unreasonable.

In the case of rice, as you well know, Mr. Chairman, the food agency in Japan buys all the rice, so that's state trading. Well, if they won't buy U.S. rice, what are we going to do? That has to be per se unreasonable. It's not under the current law.

And, finally, on the Uruguay round, I would commend your bill as an approach, the sectoral concept, at least, to focusing in on rice in 15 countries where there are foreign barriers and pressing the administration to negotiate on them. That would be a way station to a broader Uruguay round approach.

In summary, there are two things this committee has to do. First, 301 has got to be reformed; it simply isn't working—and everyone here this morning will agree on that. Second, I think you need to work with the President on the broader Uruguay round context. I agree with the GAO witness before me that that is probably the most significant opportunity available to help U.S. agricultural exports.

Thank you very much.

Senator PRYOR. Mr. Fisher, thank you. We appreciate very much your time this morning and your expertise in helping us come forward with some section of the trade bill relative to agriculture.

Mr. FISHER. Thank you. Any help I can give in drafting with you all, I'll be glad to give.

Senator PRYOR. My good friend, neighbor, and colleague, Senator Cochran has joined us, and I'm wondering if Senator Cochran has a statement he would like to make or a question for the witness.

Senator COCHRAN. Mr. Chairman, thank you. Let me express my appreciation for our witness helping us with the hearing and providing information and offering assistance to us. I think this is one subject where we can use all the help we can get.

Mr. FISHER. Thank you, sir.

Senator PRYOR. One question I do have that we would like for the record, and that is: How would the 301 petition on rice fare under the Finance Committee proposal for reform of section 301 process, and then under the administration's approach? I don't think that's a clear question.

On the Finance Committee proposal, right now on the 301 process, I wonder if you might comment on this and then compare it to the administration's proposal. I think that would be a better way of framing the question.

Mr. FISHER. Well, the administration proposes to handle 301 reform by the 24-month limitation, the time limitation. So what the administration would propose, say, with regard to the rice case, is that it would have to be resolved within 2 years. I'm not going to predict how the rice case would come out under the Senate Finance Committee proposal. Anyone who predicts how a case would come out in this town is crazy. But I think we need to redefine the term "unreasonable" the way I've suggested, to focus in on the practices of governments in terms of their behavior being unreasonable.

Senator PRYOR. Well, we deeply appreciate your testimony today.

Mr. FISHER. Thank you, sir.

Senator PRYOR. Thank you very much, Mr. Fisher.

We have now a panel—I don't know if all the panelists are with us at this moment—but I am going to call those who are present. John Baize, who is vice president of the American Soybean Association; C. Manly Molpus, president and CEO of the American Meat Institute; John Tull, who is president of the Arkansas Rice Counsel—I don't know that I see Mr. Tull, he's an old and dear friend; Bill Barton, Bonus Crop Fertilizer, Bay City, Texas—he is representing today the Fertilizer Institute; and Mr. William K. Quarles, vice president for government affairs, Sunkist Growers from Sherman Oaks, California. You've come a long way, we appreciate that.

I wonder if the panelists today would agree to summarizing their statements. We appreciate your having to wait for this period of time this morning, but I wonder if you would like to summarize your statement.

We'll call on Mr. Baize first.

STATEMENT OF JOHN BAIZE, STAFF VICE PRESIDENT, GOVERNMENT RELATIONS AND POLICY, AMERICAN SOYBEAN ASSOCIATION

Mr. BAIZE. Thank you, Senator.[1] I should say that American soybean farmers certainly have a great stake in the export market.

[1] See p. 227 for the prepared statement of Mr. Baize.

We export about half our crop annually, and, while we used to export somewhere in the area of $8.3 billion annually in soybeans and soybean products, we are down to around $5.6 billion now, and we have declined both in value and volume.

The principal areas of concern are, first is in the area of our principal competitors in the world market for soybeans, Brazil and Argentina. Brazil produces around 17½ million metric tons; Argentina this year will probably do close to 8 million metric tons. We produce about 55 million metric tons. We export about half our crop; they export well over three-fourths of their crop. The reason they do, even though they have a lot of problems, particularly in Brazil, with their own government estimating that over half their people have inadequate diets, is that they can't afford not to export it. Brazil has got about $108 billion debt, Argentina $55 billion. That means that they must annually surplus between, for Brazil, $11 billion, and Argentina about $6 billion just to pay the interest on their debts.

And as long as that debt policy is there we are going to continue to see what we are seeing on the part of those countries, which is to forget their own economy, forget feeding their own people, continue to pump it out the door at whatever price they can get. The worst competitor in the world is a bankrupt competitor, and that's what we have today in those countries.

Senator PRYOR. You are speaking about Brazil and Argentina in this context.

Mr. BAIZE. Yes, that's correct, Brazil and Argentina. On our competitor side, they are dumping it out left and right. They don't worry about the price, they don't worry about anything; all they have to do is push it out the door. They increase their incentives to grow the export-oriented crops versus the crops that they need to feed their people, like rice, cassava, and black beans. The people are hungry, but they are exporting their soybeans. We are losing market share. We've lost the Indian soyoil market totally; we have lost soybean meal markets in Europe as a result of Brazilian and the Argentine exports. Whether it's subsidizing—the National Soybean Processors have claimed in a petition, 301, that Argentina is in fact using an unfair trade practice. That's still unresolved. But we know the problem is the huge debt both countries have.

ASA thinks something the Congress needs to pay more attention to is the issue of the debts of those countries—how can we deal with the debts of those nations? We think one policy approach would be some systematic debt write-downs shared by several parties, U.S. banks, foreign countries, in return for those countries opening up their markets and possibly diverting a substantial share of their resources toward their own economies to feed their own people. We would see substantial savings occur in our own economy as a result of that, primarily because we are going to see less cost for our own farm programs when we have less competition in the market.

The other area that we have concern about today is in the area of the European Community, which is the market for about half of our exports. It's a market that we have today because in 1962, at the end of the Dillon round, we achieved duty-free bindings there on soybeans and soybean meal. It's been a market that we've built

up over the years without, I should say, the encouragement of the governments of the European Community; they don't really want our product, meaning the European Community governments, but they've taken it because they couldn't afford to pay the compensation that the United States would insist upon if they withdrew the bindings.

So now they are continuing in several ways to push us out of that market. They have proposed a fats and oils tax, about $375 a ton. That tax would virtually double the price of soybean oil in the Community; it would raise $2.3 billion for their own farm programs. And all of that money is destined under their proposal to produce soybeans, rapeseed, sunseed, and other crops. The EC is guaranteeing somewhere in the area of $15.50 per bushel today for soybeans, $600 a ton for sunseed. They have had a 400-percent increase in oilseed production in the last 8 years, a 2,300-percent increase in soybean production in 5 years. They are destined to take our market. That is the machine that is consuming us there. The fats and oils tax is nothing more than the fuel for the machine.

We are pleased that the administration last week at the Trade Policy Review Group voted unanimously, with I should say the State Department in this case being very strongly in favor of this action, that if the EC went ahead with the proposal, the United States would retaliate.

We appreciate the help that you and others have provided by cosponsoring resolutions here in the Congress to condemn that tax and urge the administration to retaliate. That's a major concern.

One of the areas—and I don't want to gloss over this at all—is that we are unique in our industry in that we do have one-half of our exports going to the European Community. The problem we face there is they really don't want our product, and we've kept the market over these years largely because we have possibly maintained a market-oriented policy that the EC couldn't cite as a reason to countervail against us. That's a difficult area.

We know that if we ever give the EC much excuse, it will move against us, impose a countervailing duty, offset any benefit we've provided. Other countries would take the market from us. So we are caught in a classic devil's alternative in the soybean industry today.

You know very well the concerns we've got with our current farm program. It's the worst of all cases. The loan rate is too low to help farmer income, too high to allow us to be competitive. The other side is we are concerned in some of the approaches that we may take will wind up giving the Community what they have always sought, which is the ability to countervail against us.

I would now like the comment on the areas specifically that you wanted to suggest in the legislation. It's important that the Congress recognize that the Foreign Agricultural Service needs additional funding this year. The administration's $89 million budget proposal for FAS is going to be insufficient. We think they need at least $100 million. The dollar has fallen in value. That's very good for exports, but it's not good for funding overseas programs. FAS needs more people. With 12 more export programs, the Uruguay round coming up, FAS is going to require a lot of resources to do its job. We suggest that there be at least $100 million allocated in

that area so that they can hire the staff that they need for these negotiations.

Also we support the provisions that would provide CCC-owned commodities for market-development activities We would like to see the administration be required to use a portion of its intermediate credit authority to fund infrastructure overseas so that countries can offload, store, transport, and utilize their commodities rather than burning up all the money they have available to buy it in containers or in bags. But the administration has thus far refused to do that. The intermediate credit money has largely been used, in our view, for debt rescheduling, even though that's a function which, in our view, the legislation in 1978 prohibited.

Senator PRYOR. You are talking about storage facilities there?

Mr. BAIZE. Yes, storage facilities, as well as facilities like feed mills—all kinds of facilities that could be used in countries overseas to use U.S. bulk commodities. But now they are taking them in container rather than in bulk, and when they are imported they can't use them because they lack adequate infrastructure.

And the last thing that we would suggest in part of the Uruguay round—we mentioned earlier that the duty-free bindings in the Community are extremely important to us. We have asked the administration if it will pledge not to give up our duty-free bindings in order to receive compensation in other sectors during the Uruguay round. We have yet to receive a commitment in any way from the administration that in fact it would not give up the bindings. And our view is that the purpose of the Uruguay round should be to expand and liberalize trade. We don't see how you can get more liberal than a duty-free binding. I think from our perspective we would like to see any authorizing legislation for the Uruguay round prohibit the administration from accepting withdrawal of the duty-free bindings by the Community for soybeans and soybean meal in return for compensation in other sectors. If we lose those bindings, we've lost one-half of our export market, and we have a problem that's enormous in this country.

Thank you.

Senator PRYOR. John, thank you very, very much. You didn't mention in this list of recommendations a marketing loan for soybeans. Now, does the Soybean Association have a position here? And, if so, we'd like to hear it.

Mr. BAIZE. ASA's policy on that, as approved by our voting delegates is that we support a program that provides a minimum of $5.02 per bushel income support to soybean producers through a means that will allow soybean prices to be fully competitive on the international markets, and which will prevent a stock build-up. Certainly a marketing loan is one vehicle that would accomplish that. There are others. We have suggested a producer option payment means as one that would accomplish that. We think there are some other authorities the administration could use to do that. The administration has thus far failed to do it. We are working with them. Right now we are discussing with them in detail, trying to get them to do something. We would prefer the administration to move ahead and do what they can do administratively, because, quite honestly, we are not in a hurry to come up here and try to open up the farm bill—that is not our objective.

But the administration has thus far refused to do that.

I only brought up this morning the point of the European Community's potential in what they may choose to do if we go in that direction. And I think that is a risk that we run, and we are going into that risk with our eyes wide open, knowing what the situation is.

But it's very likely, the EC may choose to countervail against a marketing loan particularly in light of the recent Canadian decision to countervail against U.S. corn where they ruled that our target price on corn was in fact a subsidy and injured them. I think that is a precedent that we can expect some other countries around the world to pursue, and we are left relatively powerless to deal with it because it's not in GATT, it's in their law. We can retaliate, but that doesn't help soybean farmers if they do it.

Senator PRYOR. Do you think that most or some of the soybean farmers across America that you represent feel right now that the State Department and maybe some of the multilateral banks are working at cross purposes with our farmers and sort of against their own interests? Do you sense this? Do you hear about it by letters, phone calls, visits? What is the situation out there?

Mr. BAIZE. Absolutely, they feel not so much State today as Department of Treasury. We have tried several approaches to try to get Federal assistance to compete with Brazil and Argentina. Unfortunately, we have seen the administration oppose those at times, and the best intelligence that I've been able to pick up is that opposition has largely been centered at the Department of Treasury who was concerned that if we actually got out there and had a slugfest with Brazil and Argentina, that all of a sudden they wouldn't have as much money coming back which they would use to repay U.S. banks. That's a perception that our farmers have, and I think it's a perception that is pretty well grounded in the facts.

Senator PRYOR. Senator Conrad, could you take over for a few moments?

Senator CONRAD [presiding]. I'll be glad to. I'd be interested in pursuing the marketing loan approach with you for just a few minutes. I heard your answer, and it sounds to me, from what you are saying, that a marketing loan properly structured would meet the requirements, fit the definition of a possible alternative. Is that a correct interpretation?

Mr. BAIZE. That's correct. That is in agreement with the policy of our voting delegates.

Senator CONRAD. Let me go a step further, because, as you know, we are faced with a very difficult budget situation, and there is enormous pressure on the Senate and on the House and on the President to bring the budget deficits under control. As you know, we've had a very significant run-up in the costs of the farm program, from some $3 billion 6 years ago, $26 billion now, and still we see a record amount of farm hurt out across the land, and obviously we are losing markets; we are having a very difficult time maintaining farm income. At the same time we are faced with pressure on the budget. As you know, the administration wants us to cut back fairly dramatically in terms of the cost of the farm program, close to $5 billion.

That leads me to the next question, which is payment limitation. I know payment limitation in a sense flies in the face of a marketing loan; in other words, you are working at cross purposes to some degree if you would have some sort of limitation. But given the harsh realities of the budget and how far we are from the Gramm-Rudman target for this year, we may be faced with the reality of some payment limitation.

I'd be interested in your reaction to two questions following on that set of assumptions. One, if we were forced into some payment limitation by budget restraints, what size of limitation would be acceptable—not desirable, but acceptable? And, number two, how might that payment limitation be imposed, in your judgment, in a way that would preclude or prevent the setting up of separate operations in order to qualify for the maximum amount?

Mr. BAIZE. Senator, I have to say, first off, the policy in my organization has been and continues to be for years that we oppose any form of payment limitation whatsoever. The $50,000 payment limitation that's in effect for other commodities, doesn't apply to soybeans. I can tell you that at one time $50,000 was a lot of money. A lot of people in the Midwest used to in fact say—in fact kind of look down their nose at times at the size of some of the payments that people in other areas of the country were getting. But today all of a sudden they are finding out that they can hit the payment limit also, and with $1.30 corn, a $50,000 payment limitation doesn't allow anybody to make any money. I think that's the reality.

I can't quite honestly say today, what our position would be because I'm not empowered to do it. Our farmer leaders would have to address that issue because they make the policy in the organization. But I would suspect that our people would say that a payment limitation in any form is unacceptable in any form to them, period.

Senator CONRAD. Yes, I understand that, and I respect it. The problem that we've got is—if we are going to accomplish something that would be positive for various commodities—and we've heard lots of testimony here—I want to salute the Chairman for holding these hearings, because I think they've been excellent—I've unfortunately not been able to attend most of the one today, but was here the other day—and just an excellent hearing. I think we are finding precisely what some of us thought we would find, that is, that the marketing loan has done an excellent job in cotton and rice, there's no reason to believe that it wouldn't help us in some of our other commodity groups. Some of us would very much like to see marketing loan applied to soybeans, sunflowers and wheat.

The problem we've got—and we are going to need help—the problem we've got is if we are going to take some hit in this budget process—now, we are going to fight hard, we are going to fight very hard to prevent taking a budget hit in agriculture—but I think we also have to recognize the realities, that we may have some shaving back. If that occurs, the pressure on the payment limitation is going to be intense, already is intense—I think you know that. Then the question becomes where would that payment limitation best be set in order to prevent undue harm to any of the sectors of our industry, and at the same time how do we impose it in a way that would be most fair.

We are going to need help with that, and I would urge you to go back to your people and say, look, we understand, we are not asking you to back off of your policy, don't want you to back off your policy, but we are going to need some help around here if we get to the crunch period, that we don't take an action that would create more problems than we need to create with some form of payment limitation. We are going to need some help, we are going to need some advice.

I'll forgo the rest of my time, Mr. Chairman.

Senator PRYOR [presiding]. You're doing fine. We might call on Mr. Molpus from the Meat Institute and then Mr. Quarles from Sunkist, and have them summarize their two respective statements, and then we may have some questions here.

STATEMENT OF C. MANLY MOLPUS, PRESIDENT, AMERICAN MEAT INSTITUTE

Mr. MOLPUS. Thank you very much, Mr. Chairman.[1] The American Meat Institute represents the meat packing and meat processing industry, and we appreciate the opportunity to appear before your subcommittee and look forward to the leadership we know your subcommittee can bring to a very complicated problem.

Our industry has increasingly been concerned about both the opportunities and the problems in meat exports. Unfortunately, we face around the world a number of quotas and prohibitions and tariffs that in many cases prevent or curtail the potential we have to export. Let me mention just a few.

One glaring example is in Korea where we are confronted with a blatant and undisguised total ban on U.S. meat products, and the American Meat Institute and other farm and agricultural groups intends to file a section 301 complaint on that matter. We have a new nontariff trade barrier being erected by the European Community in the form of technical inspection requirements on our plants that have no scientific basis. Again, the American Meat Institute, with other livestock and farm groups, plans and intends to file a section 301 complaint.

Senator PRYOR. What countries are those, Mr. Molpus?

Mr. MOLPUS. The EC countries as a group. As a matter of fact, I'd like to take just a moment to explain that situation. It's our most clear and pressing danger in having another opportunity blocked.

Effective April 30, U.S. meat plants will not be allowed to ship their products to the EC unless these plants comply fully with these EC requirements known as "the third-country directive." Through this set of regulations the EC is attempting to impose some highly technical but substantively insignificant requirements on our U.S. meat packing plants. The requirements dictate such things as where a wall will be placed within a plant, and the kind of materials of which plant employees' tools must be composed. These differ from U.S. inspection requirements, but have never been shown to be more effective in producing a safe and wholesome meat supply. Moreover, many of these inspection requirements are

[1] See p. 233 for the prepared statement of Mr. Molpus.

not even enforced within the EC, yet the European Community demands that our plants strictly comply with the details of these requirements or be denied the right to export into the European Community. Our industry is faced with either the loss of this important market for variety meats that affects the value of livestock or we are being forced with this gun pointed at our head to make investments in new equipment and change the configuration of our plant operations to comply. We should not have to make either choice. This issue should be a top priority of our U.S. Trade Office, and we would urge this subcommittee to join with us and other agricultural groups in urging the Trade Office to give this matter its immediate attention.

At a time when the EC is exporting into the United States, meats with a value three times greater than what we export to the EC, not to mention their subsidized pork which has knocked down dramatically our pork supply to Japan, it is inconceivable that we would stand by and allow the EC to curtail or halt our variety meat exports to those countries.

In addressing these issues I have mentioned our intent to file section 301 petitions. We are taking that action because it's basically the only statutory authority we have to fight unfair trade practices. However, I would hasten to add that the section 301 as a remedy to resolve trade disputes is lacking in effectiveness in many respects. It is a slow and costly process that rarely results in the elimination of unfair trade practice, and there are several notable 301 actions that have been hanging around for years.

We believe the time has come for the United States to put into our trade law an effective tool to resolve unfair trade practices. Having reviewed the legislation that's been introduced by the chairman and other Senators, we have a number of suggestions for improvements in the 301. Let me just mention those very quickly. Quite frankly, I think a lot of the comments that a previous witness, Mr. Fisher, made regarding the need to modernize and reform 301, we would associate ourselves with his comments.

But basically 301 reform needs to include the requirement that U.S.T.R. investigate alleged unfair trade practices, that upon identifying those unfair trade practices the U.S.T.R. be required to negotiate with the countries imposing those restrictions and demand a prompt resolution, that finite deadlines for investigation and negotiation be established; and in the absence of a satisfactory resolution by the deadlines, that U.S.T.R. be required to recommend to the President that retaliatory action comparable in scope and magnitude of the unfair practices be instituted, and that the President be required to retaliate unless—and there is an issue of discretion, and the President should have some discretion—that he should be required to retaliate unless there can be a substantial showing that any additional extension of the deadline would result in a satisfactory resolution of the problem.

A proposal such as S. 310 and S. 512 would complement the new remedies that we've been talking about of gaining market access by enhancing agricultural exports. Certainly market and product promotion are useful. This, however, should not be viewed as a substitute for an aggressive challenge to unfair trade practices. I think if there is one point we would like to make with the subcommittee

today, it is that in our judgment our single most important objective in trade legislation must be to improve the mechanisms to resolve unfair trade practices. Gaining access to the market is the most crucial element in improving meat exports. Additional funds or personnel for market development may be desirable, but those efforts are useless if we cannot get into the market place.

Mr. Chairman, the American meat industry only asks that we be given a fair chance to compete. Our products will sell, and we are quite willing to go into the foreign markets and put into place the marketing tools necessary to sell our products. As things stand now, however, we are losing ground because other countries do not play fair nor do they take our threats to ensure fair trade seriously.

So we thank you for giving us this opportunity, and we look forward to working with you.

Senator PRYOR. Thank you very, very much for your statement. Mr. Quarles.

STATEMENT OF WILLIAM K. QUARLES, VICE PRESIDENT, GOVERNMENT AFFAIRS, SUNKIST GROWERS, INC., VAN NUYS, CA

Mr. QUARLES. Thank you, Mr. Chairman.[1] Sunkist is a nonprofit agricultural marketing cooperative consisting of approximately 6,000 growers who produce citrus in Arizona and California. The varieties produced by Sunkist members are navel and valencia oranges, lemons, grapefruit, and tangerines.

Approximately one-third of Sunkist's total volume is exported. Since fresh citrus is a perishable product, our export markets are vital to the economic well- being of Sunkist members.

I would like to spend most of my time this morning talking about two programs—the Foreign Agricultural Service's Cooperator Market Development Program, and the closely related Targeted Export Assistance Program, which I will refer to as the TEA Program. Both have had remarkable success in moving U.S. farm exports. These programs are being emphasized in part because this is where Sunkist's experience lies and in part because such programs are believed to be the key to strengthening our exports abroad. Although the Cooperator and TEA programs have not received much attention to date in the context of omnibus legislation, they bear closer consideration by, and maximum support of, this committee.

Sunkist participated in the Cooperator Program for many years until fiscal 1986 when TEA was created. As a former and perhaps future cooperator participant, it is our view that the sharing of expertise and funds afforded by the Cooperator Program has greatly enhanced past market development efforts for Sunkist and other cooperators. The program has been particularly beneficial in directing cooperators, most of whom are inclined to emphasize short-term market opportunities, to invest in long-term commitments required to develop and maintain future market outlets. Sunkist, for example, has used cooperator funds in past years to develop new market opportunities in the Pacific Rim to replace sales lost to the European Economic Community as a result of the Community's il-

[1] See p. 234 for the prepared statement of Mr. Quarles.

legal tariff preference schemes on citrus. This outward long-term orientation is essential if American agriculture, which is increasingly being closed out of traditional markets, is to survive in world trade.

Senator PRYOR. Mr. Quarles, if I may interrupt you—and I apologize—there is at this moment a vote on the Senate floor, and we have 15 minutes to get there and cast our vote. If I might, I would like to ask you to maybe summarize your statement within about the next 2 minutes, then allow us please to ask a few questions and comments, and probably in about 7 minutes we are going to have to start making a run.

Mr. QUARLES. Very good. I think I can summarize it, Senator, in just a minute or so.

Sunkist's experience with both the Cooperator Program and the TEA Program, we believe, at least it has convinced us, that the way to increase agricultural exports is through these market development programs. So our primary message is that, to the extent that these programs can be adequately funded and to the extent that the Foreign Agricultural Service can be given appropriate budgetary funding to allow them to appropriately administer these programs, then we believe that no further programs, export programs, are really necessary—just beef up the ones that we have, fund them adequately, and we think they have proven that they will do the job.

Senator PRYOR. You're talking about the staff and the———

Mr. QUARLES. Talking about the staff of the Foreign Agricultural Service.

Senator PRYOR. We had very good testimony 2 days ago on this very point, and I'm very glad that you brought this up, because it is a very critical area that concerns all of us.

Senator COCHRAN. Mr. Chairman, thank you very much. I'm glad to be able to welcome these witnesses and this panel to our committee. I think their testimony has been very helpful. The thing that has come through very clearly to me is that we do need to concentrate on improving our statutes, to provide opportunities to deal more effectively with unfair trade practices, and to work in a partnership with private business and exporters and farmers in helping assure access to foreign markets. These are two I think very, very important points that have been made by this panel, and, of course, the support of the Government programs which are a partnership in fact—the TEA Program and the cooperator programs of FAS—to help expand those markets once access is gained.

We've just got our work cut out for us, I think. We've got some good suggested bills, proposals, before the committee to review, and I think the hearing is an indication of how strongly this committee and this Congress feel about the trade problem. I don't know of any issue that has a greater priority or higher priority in the Congress this year than trade. We just can't stand to have a $170 billion trade deficit again. I don't think we will—I hope we won't. That was last year's imbalance, and it needs addressing, it needs correcting.

Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Cochran. You know, Mr. Molpus from the Meat Institute just stated that he's going against

Korea with a 301 and against the EC with a 301, and I think sometimes we must be very frank with each other. Under the present environment I don't know that a 301 is going to help, unless it is changed, unless it is strengthened.

Let me echo what Senator Conrad just said: we need help, and we need help not only in giving us the wisdom to put together a section of the trade bill dealing with the American farmer and how to assist that farmer and allow that American farmer to be competitive again. But once we start rolling with this legislation—and I don't know when it's going to be—we are going to need the help of your organizations in getting your members educated to what the problem is and what we are attempting to do, and to get your support, with some of those Senators and some of our very good friends who don't understand the plight of the farmer in these trade wars, in these trade situations.

So I would like to echo what Senator Conrad said and just take it a step further. We are going to need some cards and letters coming in to some of our friends and colleagues here before this is over, on the House and the Senate side.

Mr. MOLPUS. I'm delighted to join you in that. We share your pessimism about the effectiveness of the 301. It's just the only game in town. But hopefully we can make it better as soon as possible.

Senator PRYOR. Senator Wilson.

Senator WILSON. Thank you very much, Mr. Chairman. I've got a statement that I will just submit for the record,[1] with your permission, and put a question to Mr. Quarles.

Tuesday, March 10, we had before the committee Mr. Kay, the Administrator of the Foreign Agricultural Service, and in his testimony he stated that the TEA Program was, in his words, the star of the 1985 farm bill. I would be interested, Mr. Quarles, in your indicating even more specifically than you have in your statement how the citrus industry has utilized TEA funding to increase exports abroad, and also let me ask you to respond to a proposal. I, like the other members of this subcommittee, am concerned in a way that the chairman has just expressed, I think with great eloquence, and was echoed in that by my friend from Mississippi, Senator Cochran. The provision that I have in mind, as we consider how we can best assist farm exports, would be one that would link the performance of our trading partners to increased targeted export assistance to agricultural sectors that are injured by their conduct.

It seems to me that there is some equity in that; that it is in a way, perhaps, a response to the lack of confidence I've heard expressed in 301's. So what I am saying is, would you be supportive of an approach that seeks to provide a remedy to those who have been injured by unfair trading practices in the form of an increased Target Export Assistance Program?

Mr. QUARLES. Absolutely, Senator, and, as you well know, we have had considerable experience in both areas, that we have been greatly damaged by unfair trade practices abroad—we've been vir-

[1] See p. 185 for the prepared statement of Senator Wilson.

tually run out of the European Community because of their illegal tariff preference schemes, and we've also filed a 301. Somebody mentioned 11 years ago—actually we have been working on that program for about 17 years; it still exists, and it's still illegal. Because of the TEA program, however, as our volumes were pushed out of the European Community, our commodity group was able to maintain itself in a rather sound economic condition due to the TEA Program, we believe, because we were able to take those volumes and move them into other export markets. The TEA Program allowed us to beef up our advertising and our promotion. We were able just this past year, for example, to move more second-grade fruit into Japan at much higher prices than anyone would have guessed. It's an extraordinary program. It's proved to us that it's worked certainly for horticultural products, as we have in California. I firmly agree that, from that standpoint, it has helped one aggrieved party, because of illegal trade restraints abroad, move into other markets.

We also subscribe to Mr. Kay's statement that the TEA Program truly is the star of the farm bill programs.

Senator WILSON. Thank you, thank you very much.

Senator PRYOR. Thank you, Senator Wilson. Let me assure our panel this morning that the full text of all of your statements—I know you've done a lot of preparation—will be placed in the record. We also will rely on those statements very heavily as we go now into the process of drafting the section of the trade bill dealing with American agriculture.

We are very indebted to all of you, we are grateful to you. The meeting now stands adjourned.

[Whereupon, at 11:57 a.m., the subcommittee adjourned, subject to call of the chair.]

APPENDIX

TUESDAY, MARCH 10 HEARING

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Mr. Chairman, I want to thank you for holding this hearing today on agricultural trade legislation. This Subcommittee hearing and those that will follow will help our Committee build a record for action on comprehensive legislation to make American agriculture more competitive in the world economy.

There is absolutely no question that our Committee and the full Senate must act quickly. In the last five years, American farm exports declined by more than $16 billion—that is more than $3 billion per year. For every $1 billion decline in our agricultural exports, 3,000 families lose their farms and 35,000 farm workers lose their jobs. And, for the first time in 25 years, we imported more food than we exported for three months last summer.

Every Senator who recently traveled with the Committee to distressed farm communities in the Midwest saw firsthand the effects of declining agricultural exports on American farmers. The crisis in international trade has come home to the family farm.

And, the crisis in international agricultural trade is at the very center of the entire debate on competitiveness and trade. It is no coincidence that agricultural issues were nearly the cause of a trade war between the United States and the European Community. That trade war--the first since World War II—was barely averted just one month ago. Barriers to free trade in agriculture not only threaten U.S. agriculture, but also jeopardize the global trading system.

The Agriculture Committee is in a unique position to act. We have a separate title in the Senate trade bill.

And, act we must, because the Administration will not. The President's trade initiative is an insult to American farmers. It pays only lip service to agricultural trade issues, seeking to salvage whatever meager support the President still enjoys in farm communities.

But, there is worse. At the same time the Administration has created the pretense of offering an agricultural trade initiative, the President's budget proposes a 40-percent cut in export credit programs and nearly a 20-percent cut in the very successful Targeted Export Assistance Program.

The Senate leadership has charged us with reporting agricultural trade legislation by May 1. That is what I intend to do.

I will describe S. 512 shortly. But, at the outset I would like to make it clear that our bill is just a start. S. 512 is cosponsored by Senators Pryor, Cochran, Melcher and Grassley. Other Senators, including Senators Baucus, Boren, Harkin, Melcher, Pryor and Grassley have bills of their own. I want all of those bills to get a fair hearing. I hope we can pull together all the best provisions of those bills, strengthen them even more, and report out meaningful and far reaching trade legislation.

DESCRIPTION OF S. 512

Let me briefly describe S. 512, and then add a few suggestions for making it even stronger.

The first part of our agricultural trade initiative provides instructions to the Administration to aggressively negotiate the end of barriers to American agricultural trade in the upcoming round of talks on the General Agreement on Tariffs and Trade. Unfair trade barriers cost American farmers billions of dollars in lost markets last year—more than $1 billion in Japan alone. The cause: the GATT rules for agriculture are so full of loopholes, and those loopholes are so often exploited, that

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international trade law no longer protects the rights of American farmers, but rather sanctions the unscrupulous and protectionist behavior of our trading partners.

Our legislation directs U.S. negotiators to clarify the agricultural provisions of the GATT, to make it a useful tool for resolving disputes and producing a more open agricultural trading system.

Our bill also states that it is the policy of the United States to reduce expensive agricultural support programs in a manner that increases exports, restores vitality to the family farm, and is consistent with efforts to reduce the federal budget deficit. Since the current Administration took office, spending on farm programs has increased from $9.8 billion to $29.6 billion. Ail of us agree that we must control farm spending.

But, our trading partners should understand one thing: the United States is not going to roll over and play dead. We will do what it takes—we will spend what it costs—to reverse the decline in our agricultural exports.

The legislation also contains specific instructions to our trade negotiators to seek the elimination of trade barriers in the European Community, Japan and Korea.

The upcoming GATT negotiations promise to drag on for years. American agriculture cannot wait that long, nor can we afford to sit back and hope that those talks—however brief or lengthy—will solve all the trade problems confronting American farmers. We must also take several concrete steps at home to make U.S. agriculture more competitive.

First, our legislation would make surplus CCC commodities available to cooperator organizations for demonstration projects designed to expand U.S. agricultural exports. For example, CCC wheat surpluses might be made available free-of-charge to a cooperator that wishes to create a bakery in a foreign market to demonstrate the uses of American wheat exports.

Our legislation would also ensure that the Foreign Agriculture Service, the branch within the Agriculture Department charged with expanding U.S. exports, is fully staffed. FAS would be staffed by no fewer than 850 individuals. This provision is similar to the one included in Senator Melcher's bill S. 125.

FAS, and especially the agricultural attachés who work for that organization, are America's agricultural salesmen overseas. They are charged with tracking leads on new markets for agricultural commodities and products and passing the information on to American farmers. There are 75 attachés in 55 posts abroad. Unfortunately, our attaché program is understaffed and overburdened. The General Accounting Office reports that more than two-thirds of total attaché resources are devoted to preparing reports for USDA. Only one-third of those resources are dedicated to selling more American agricultural exports.

Our bill would require that at least 60 percent of overall attaché resource time be spent on developing markets and promoting American agricultural commodities and products. S. 512 will also give USDA the authority to hire foreign nationals, including interpreters, and promotional and marketing specialists, to help our attachés do their jobs better.

During their tours of duty, attachés become very familiar with foreign market demands and marketing practices. Our bill would require attachés to spend their first six months upon returning from overseas tours in U.S. agricultural regions, sharing their experience and educating agribusinesses on how better to promote their products abroad.

S. 512 also creates an office within the Foreign Agricultural Service to coordinate all export promotion and market development activities, including the programs enacted by the Food Security Act of 1985. In addition, the office is charged with developing annual recommendations for expanding U.S. agricultural exports and reporting those recommendations to Congress. The office will also report on the market development and export promotion efforts of foreign countries and private sector groups and suggest how the U.S. might benefit from adopting such programs.

An exchange program would also be created within the Foreign Agricultural Service to bring in the best minds from the private sector to share their expertise in export promotion and market development.

S. 512 creates an office to monitor grain quality and to handle all complaints about the quality of U.S. commodity exports. There have been numerous complaints about the quality of U.S. agricultural exports. This new quality monitoring office would be charged with tracking all complaints, evaluating whether the complaints are legitimate, and working with the Federal Grain Inspection Service to correct any problems found.

At the heart of our proposal is a provision to increase the USDA budget for trade shows and exhibitions, to bring our support for export promotion up to the level of

our major competitors. The U.S. spends less per $1 billion of exports on market development than Australia, Denmark, New Zealand and South Africa. One of our biggest competitors for the grain trade, Australia, spends more than three times what we spend per $1 billion in exports on export promotion. Our bill would increase the trade show and exhibition budget from $2.3 million to $8 million.

The increased funds are to be used to raise the quality of U.S. agricultural trade shows. At least 50 percent of the new funds are to be used to hold trade shows in newly developing markets. Currently, more than 50 percent of USDA's promotional resources are devoted to existing markets in Western Europe and Japan. Less than one-out-of-ten dollars is spent developing markets in Africa and Latin America.

In addition, the authorization for market promotion and trade development is increased from $22.5 million to $30 million. This increase will make it possible to increase the FAS staff, especially the corps of agricultural attachés. The increased staff levels will free up attachés to spend more time on market development activities.

The last spending provision in the bill would increase the maintenance and support budget within the Foreign Agricultural Service by $3.5 million. This slight increase will help FAS better manage and implement the export promotion programs created by the Food Security Act of 1985. The General Accounting Office found that FAS has had difficulty implementing the Export Enhancement Program and other programs created by the 1985 farm bill, due to understaffing.

These funds will also be used to make sure that trade leads discovered by our agricultural attachés abroad ultimately reach American farmers and exporters. Far too often, trade leads end up on the desks of overworked bureaucrats at FAS and never reach American farmers.

Finally, S. 512 creates an Export Development Advisory Committee. Membership on the Committee will include a member of the Senate, a member of the House of Representatives, the Secretary of State, the U.S. Trade Representative, the Secretary of Commerce and the Administrator of AID. In addition, 24 experts from the private sector, including farmers, exporters and representatives of cooperator and commodity groups, will be appointed to share with USDA their experience and concerns about increasing U.S. agricultural exports.

SUGGESTIONS FOR FURTHER PROVISIONS

Mr. Chairman, as I said earlier, S. 512 is just a start. I hope the Committee will consider strengthening the bill in the following ways.

First, we must seriously consider making the Export Enhancement Program an across-the-board effort to boost American agricultural exports. There is growing evidence that the targeted nature of EEP seriously threatens the program's effectiveness. The number of markets where the Europeans are our only competitors is extremely limited. And, in those markets, like Egypt, Algeria and Iraq, EEP clearly led to increases in U.S. exports. At the same time, however, wheat exports to some of our best trading partners, including Korea and China, dropped dramatically. Overall, our wheat exports dropped by more than 17 million metric tons last year. The reason: the Europeans and others subsidize exports to those nations and we do not.

The Administration has refused to extend EEP to our traditional trading partners, to protect the so-called non-subsidizing nations of Canada, Australia and Argentina. Yet, that argument does not hold much water. The overall effect of EEP and similar programs offered by the EC is to lower prices for exports from non-subsidizing countries. In effect, the damage has been done. We are not protecting our friends from anything. We are only limiting the ability of our farmers to compete on the world market.

That was the message a majority of the members of our Committee sent last week, when they joined me in a letter to the President, urging him to extend EEP to the Soviet Union.

I have asked the General Accounting Office to report to me shortly on the effects of removing the targeting mechanism in EEP and also to report to me on the cost.

One thing is clear: we must show our resolve to compete and also to bring the Europeans to the negotiating table, to some day make it possible to reduce agricultural subsidies through bilateral cooperation. I hope to work with Senator Baucus and others on this initiative to improve EEP.

Second, we ought to improve the short-term credit guarantee program, GSM-102. U.S. exporters are losing business, because USDA refuses to cover freight costs under GSM-102. Many of our competitors provide financing for transportation. We ought to do the same. I hope the Committee will direct USDA to cover freight costs

under GSM-102, in those specific cases where competing nations offer such financing.

In addition, the Committee staff is investigating the possibility of providing oil denominated financing under GSM-102, which may increase interest among oil exporting nations in buying our agricultural exports.

I hope the Committee will also consider a proposal I am developing to clarify GSM-102 financing and to make it more flexible. USDA currently designates a certain amount of GSM-102 credit for purchases of specific commodities in a participating country. Yet, while countries know how much credit is available for specific commodities, they are very unsure whether USDA has set country limits on overall financing. USDA should inform purchasing countries of the total amount of financing which is available. In addition, we ought to create an additional supply of credit guarantees to form a so-called "flex pool." The flex pool would make GSM-102 credit available to countries that want to buy American exports, but have already exhausted their allocated financing for specific commodities.

Third, the 1985 Farm Bill directed the Administration to develop two barter or countertrade agreements, to demonstrate the utility of these alternative forms of agricultural trade. The Administration has yet to produce any initiative in this area. According to Commerce Department officials, 33 countries are now successfully engaged in countertrade, and we have yet to even begin our pilot programs. That ought to be corrected.

Mr. Chairman, we are working on all of these suggestions. Together with all the members of the Committee, I hope to produce a comprehensive series of proposals for the Committee's consideration.

Our Committee has a unique opportunity. Completing work on an agricultural trade bill by May will be difficult. But, we must meet the challenge. The future of the family farm and of American agriculture depend, in part, on our efforts to make agriculture in this country more competitive.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Mr. Chairman and fellow subcommittee members, I wish to commend the chairman for organizing this important and timely series of trade hearings and I look forward to listening to testimony from our distinguished list of witnesses, including Mr. Kay of the foreign agricultural service who appears before us today and Mr. Bill Quarles of Sunkist Growers who is scheduled to appear on Thursday.

This subcommittee, and the full committee as well, will need to consider strong export legislation. For two consecutive years, American agricultural exports have fallen drastically. In fiscal year 1986, American agricultural exports amounted to $26.3 billion. Considering that in 1981 our farmers exported a record breaking $44 billion in agricultural products to the world, last year's number is a painful indicator of U.S. vulnerability. Of course, the prosperity of our farmers depends to a certain extent on macroeconomic forces. But U.S. agriculture is more often victimized by the blatantly unfair agricultural trade practices of our foreign competitors.

As you may know, Mr. Chairman, during the debate on the 1985 farm bill, I authored a provision of the farm legislation's trade title that authorized the U.S. Department of Agriculture to distribute $1 billion of funding over a five year period to various industries to expand their export sales. This funding, known as "Targeted Export Assistance" ("TEA"), provides market development assistance to commodities which have lost export sales due to unfair trading practices and illegal subsidies of our trading partners.

Although it would be better off if we did not have to resort to these types of federally-funded market development programs, I firmly believe that until other countries are willing to adopt fair trade policies, our government is justified in providing assistance to our producers who have lost markets due to illegal trade practices of foreign competitors. The TEA Program puts our trading partners on notice that the United States government is prepared to defend the world wide markets of our Nation's farmers.

During fiscal year 1986, the Department of Agriculture approved $110 million under the TEA Program for various industries across the Nation, and the success of the program was phenomenal. For example, the canned peach industry exported 560,000 cases of peaches, valued at $10.4 million between 1984-85. Without TEA funds, the industry anticipated a loss of $2.8 million or roughly a 20 percent reduction in exports to 450,000 cases—the lowest level in twenty-five years. However, with $2.5 million in targeted export assistance, the canned peach industry was able

to increase exports in 1985-86 by 23 percent, resulting in $11.7 million in sales. In Japan alone, the industry increased exports by some 200,000 cases.

It is understandable that I was shocked, indeed dumfounded, to learn that the administration has recommended a $30 million reduction in TEA funds for fiscal year 1988. This is especially disturbing after listening to the President's State of the Union Address in which he stressed the importance of expanding our Nation's export markets abroad. Clearly, the Targeted Export Assistance Program has been a proven success in achieving this goal.

In fact, in a recent USDA inter-departmental memorandum, first quarter horticultural exports were described as "astonishing." Growers of grapefruit, pears and walnuts, to name a few, all posted sizable increases in export sales. The almond growers alone were able to increase export sales by 141 percent! This is largely due to our promotional efforts under the TEA Program.

We can ill afford to continue to allow our trading partners unhindered access to our markets while our farmers fall victim to the illegal trade practices and policies of their foreign competitors. We must, in effect, provide American agriculture with the tools to fight back—targeted export assistance is one such tool. I hope that my colleagues on this subcommittee will support me in my efforts to restore, if not increase, funding for the TEA Program. I will also ask my colleagues to join me in introducing legislation which will directly link progress in our current trade negotiations to future appropriations of TEA funding.

On another trade matter, I intend to work with our rice producers to develop legislation to provide relief to our Nation's rice growers, who have fallen victim to the self-serving protectionist rice trade policy of Japan. I commend you, Mr. Chairman, for the trade legislation you introduced in February that is intended to aid our domestic rice growers. My decision to develop rice trade legislation was prompted by an unfair trade complaint filed by our Nation's rice producers under section 301 of the Trade Act of 1974. Their petition, which sought the opportunity for American rice exporters to sell their product in Japan, was denied by the U.S. Trade Representative's office (USTR) last fall. Instead of taking swift action on this unfair trade complaint, USTR allowed the Japanese government until mid-1987 to develop a strategy for increasing rice imports to their country. In my view and based on recent comments by Japanese officials, we will never see a rollback of Japan's illegal rice trade policy. USTR made a grave error in not initiating a section 301 investigation against Japan.

During the past twenty years, policies implemented by the government of Japan have barred our exporters from selling American rice in that country. Japan places quantative limits on all rice imports and permits only its state trading enterprise, the Japan food agency (JFA), to buy rice. The JFA currently purchases rice only from Japanese producers at nearly ten times the world market price. As a result, the Japanese consumers and taxpayers are spending nearly $25 billion to prop-up its rice growers and to insulate them totally from the realities of the world market place.

While world rice prices have plummeted since 1981, Japanese prices have consistently risen. By refusing to play fairly, the government of Japan has extorted ever-higher prices from its domestic consumers of rice and has inflicted economic injury upon Californian and other U.S. rice growers and millers. These American rice growers, who would like to export their commodity to Japan, estimate that the Japanese import restraints on rice cost U.S. exporters as much as $1.7 billion per year.

Presently, the U.S. rice industry accounts for only 16 percent of world rice exports, compared with a 25 percent share in 1981. During that five year period, California rice producers suffered a 70 percent reduction in the dollar value of their exports—from more than $300 million in 1981 to less than $90 million in 1985. It is my understanding that a complete liberlization of the Japanese rice market would double the volume of U.S. rice exports and quadruple their value. The elimination of Japan's unfair import ban would also benefit rice growers in Burma, Thailand, Pakistan, and other developing countries.

California rice growers—and their fellow farmers in other States—are efficient producers of rice and are ready to compete in the Japanese market, if they are given the chance. Simply stated, our rice farmers are requesting access to the same level playing field in Japan that the Japanese enjoy in the United States for their exports of steel, autos and other consumer goods. I will be introducing legislation to remedy this situation.

Finally, Mr. Chairman, I would like to comment briefly on one other industry that is fighting for its life—our domestic rose industry. Since 1977, our domestic rose growers have faced a sharp reduction in their share of the U.S. market. From 1977 to 1983, imports increased from 10.3 million blooms to 126 million, represent-

ing 20 percent of the domestic market. In 1986, almost 215 million blooms were imported, nearly 100 million more than in 1983 and a 24 percent increase from just one year earlier, 1985. Imported roses now capture almost 27 percent of the total U.S. market for roses, and this growth of imports has had a devastating impact on our domestic rose growers. Continued market penetration could eventually bring about the demise of our rose industry.

One of the major reasons for the strong penetration of the domestic market by foreign rose producers is the very low import duty enjoyed by foreign exporters to this country. The European Community imposes a duty three times as high as that imposed by the U.S. during the prime marketing season. In addition to this tariff advantage, major exporters of roses to this country enjoy competitive advantages resulting from unfair trade practices and subsidies.

Since 1977, domestic rose growers have repeatedly attempted to obtain relief through administrative channels, including two requests for section 301 investigations by the U.S. Trade Representative that were both denied. The unfair trade practices of several rose-exporting countries have been well-documented and upheld by the international trade administration and the court of international trade, but domestic rose growers have nonetheless still been unable to secure a remedy to their problem through these channels. The only remaining avenue of relief is through legislation, which I intend to introduce.

Quite simply, my bill would align U.S. tariff rates on fresh-cut roses with the same levels currently imposed by the EC for both peak and non-peak seasons. I believe that this legislation will return a greater degree of fairness and equity to this industry and could help to prevent our Nation's rose growers from experiencing the fate suffered by domestic growers of other cut flowers. I hope that my colleagues will join me in this effort.

In closing, Mr. Chairman, let me commend you again for organizing this series of trade hearings and indicate my willingness to work with you and other members of the subcommittee in ensuring that American agriculture is afforded the same opportunity to compete that our trading partners enjoy in the U.S. I do have a few questions for Mr. Kay regarding the TEA Program and at the appropriate time would appreciate the opportunity to ask them. Thank you.

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Mr. Chairman, it is a pleasure for me to be able to testify before your subcommittee this morning on the relevance of an agricultural section in the omnibus trade bill of 1987.

Some will interpret the present mood as protectionism on the rise in the United States. Yet, many individuals—including myself—see it more as a move to open foreign markets now closed, and to beef up trade laws not currently being enforced.

Most trade groups are not only hoping for favorable trade legislation this year, but also for progress in the new round of international trade talks scheduled in Geneva. One of the major goals will be to try and obtain concessions from Europe to reduce its high export trade subsidies.

Most alarming to me is that, in less than 10 years, Europe has gone from one of the United States biggest grain buyers to its most aggressive export competitor. The decline in our agricultural exports have significantly cut into what was once a healthy agricultural trade surplus.

This decline has had a number of serious repercussions throughout the U.S. economy. Farmers look to the export market to take the production from more than one-third of their cropland. Falling exports have resulted in significant declines in farm income and farm employment.

It is estimated that for every one billion dollar drop in export sales, some 35,000 agricultural jobs are lost, as well as 60,000 non-farm jobs. And for every dollar lost in agriculture export activity, an additional dollar or more worth of supporting business activity is foregone.

Agriculture is a vital and integral part of reversing our trade deficit. I commend this committee for having the wisdom and foresight to not only hold hearings on this matter, but to attempt to have legislation a part of the omnibus trade bill.

As some of you are aware, I am an original co-sponsor of Senator Leahy's bill, S. 512, to promote the export of U.S. agricultural commodities. I understand that other legislation will be addressed here this morning as well, and I have asked my staff to review it for possible co-sponsorship.

What I would like this committee to consider in its drafting of a major ag bill is a section that would include legislation I introduced in 1985, 1986, and most recently

in January of this year. My bill is S. 399, the intent of which is to amend the Traiff Act of 1930 with respect to the definition of industry in anti-dumping and countervailing duty investigations involving certain processed agricultural products.

This legislation was a part of the House omnibus trade bill last year, but because the Senate failed to act on any trade legislation in the last few years it was never considered by the full Senate. For the sake of time, I would like to include in the record a copy of the bill and a copy of a floor statement by myself and Senator Danforth relative to this legislation.[1] The six main points of what the bill does are as follows:

1. Places the focus on the industry producing the processed agricultural product rather than attempting to equate the raw and agricultural products as like products.

2. Maintains the two part test currently applied by the international trade commission to determine when an industry will be deemed to include procedures of both the raw and the processed agricultural product.

3. Adds the concept of value added as one of the economic factors to be considered in examining coincidence of economic interest. In addition, guidance is provided to the ITC with respect to its consideration of price and value-added relationship.

4. The language would direct the ITC in making decisions regarding threat of material injury, to focus upon the impact which the imposition of duties on either raw or processed product—but not both—would have upon imports of the other product.

5. The commission would also be required to aggregate imports of both the raw and processed agricultural product—where both are being imported—to determine the level of market penetration of import cases involving an industry made up of producers of raw and processed agricultural products.

6. Last, the language would make it clear that producers of the raw product which were deemed to be a part of the industry producing the processed agricultural product would have standing to initiate countervailing duty and anti-dumping cases concerning imports of processed product.

It should be noted that Congress during consideration of the 1979 Trade Agreements Act, emphasized the "special nature of agriculture" relative to the countervailing duty and the anti-dumping statutes. (This legislation can be found in Senate Report 96-209, 96th Congress, 1st session 88 (1979)).

Mr. Chairman, once again, I thank you for permitting me to testify at this hearing. I believe it is imperative that we begin to demonstrate our intolerance to violations of trade laws, while at the same time improving our access to foreign markets.

We must develop new policies that create a level of confidence for our farmers, businessmen, and our trading partners. We need to get at the root causes of our trade problems, rather than merely treating the symptoms!

No longer can the U.S. afford to be perceived as a paper tiger. It's fine to promote free trade, but more importantly, we need to promote fair trade. We must immediately deal with the triple threat of our trade deficit, budget deficit and the world debt crisis during this Congress if there is to be any hope of a return to a robust American economy.

America can only be competitive if we all work together. This country has the ingenuity, resources and determination to succeed. All we need is the commitment at this point in time to set the highest priority to decisively move forward. This hearing is a good first step in that direction.

Statement of Hon. Max Baucus, a U.S. Senator From Montana

I am very pleased to be here today to discuss the agricultural trade problem. I would like to thank my good friend Senator Pryor for asking me to testify before you and to join the subcommittee for these important hearings.

I commend the entire subcommittee for quick attention to the agricultural trade problem.

American exports of agricultural products have dropped sharply since 1981. The value of U.S. farm exports has declined $18 billion from 1980 levels. During the same period, the U.S. trade surplus in agricultural products fell from almost $27 billion to only $5.4 billion.

Our farmers depend on exports for one-third of their gross income. The loss of export markets has been sorely felt on the family farm. Simply put, the brightest part of the U.S. trade picture in 1981 has become one of the bleakest today.

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[1] The copy of the bill and the floor statement are retained in the committee files.

We must always keep one eye on the prospect of resolving agricultural trade problems through the GATT round. But a solution through GATT negotiations is at least five to eight years away. Our farmers just cannot wait that long for help.

Also, we should not enter GATT negotiations as an exporter in decline. If we lose our share of the world market, we cannot depend on negotiations to get it back. Our competitors will never negotiate if they can get what they want by simply increasing their subsidies.

I have sponsored S. 310, the Agricultural Trade Enhancement Act, which I believe can make the U.S. competitive in world markets once again. I would like to share with you what I see as the four goals that new agricultural trade legislation should have.

First, agricultural trade legislation must make our farm products competitive in world markets.

Some of the erosion of our market share has been caused by macroeconomic problems, but much has also been caused by the unfair subsidies of other exporters—especially the EEC.

We know other exporters will cut back plantings and be far more willing to negotiate if we show them we are willing to "fight fire with fire."

The efforts made to become competitive in the 1985 Farm Bill have convinced some exporters to limit production. And the current Export Enhancement Program has convinced others to come to the negotiating table. But we need to do more.

We need an aggressive across-the-board effort to bring down U.S. export prices. Perhaps the best way to do this is through a marketing loan. But if that can't be accomplished, we must expand the EEP into an across-the-board program.

An across-the-board EEP is consistent with the intent of the 1985 Farm Bill. The EEP allows us to lower export prices immediately to the world market price, without damaging farm income.

If we lower our export price with the EEP, we will see the benefits much sooner than if we rely on lowering loan rates to carry the entire burden.

My legislation contains provisions to do this. It expands the EEP into an across-the-board program that rewards fast growing customers and good customers. My proposal also retains provisions from the current EEP that aggressively target the markets in which we compete with the EEC.

The second major goal of agricultural trade should be to insulate agricultural export programs from the influence of political deals and manipulations.

American farmers have been severely hurt by political decisions to declare embargoes on sales of agricultural products, to exclude nations from EEP bonuses, and to discontinue or curtail export programs.

My legislation attacks this problem by drastically limiting situations in which an embargo requiring the breaking of commercial contracts can be declared.

S. 310 also prevents political concerns from blocking access to the EEP. And it requires detailed reports from the Administration on the potential to use existing export programs in overseas markets.

Our third goal requires the Administration to take action instead of merely authorizing programs.

Many promising programs, like blended credit and the EEP, have been poorly used or abandoned by this Administration.

My legislation requires funding for and dictates the availability of the EEP. It also urges the aggressive use of other existing programs, and requires reports on unused programs. Once the Congress has access to the information required in these reports, we can pursue further legislation if it's needed.

The final goal of new agricultural trade legislation should be long term market development.

Our competitors are far ahead of us in undertaking the projects that build overseas demand and establish solid commercial relationships with emerging exporters. We cannot be left behind in the struggle to build future markets.

My legislation attacks this problem by authorizing the release of commodity credit surpluses to support the overseas market development activities of cooperator organizations and by using food and aid to build future commercial markets.

I do not believe S. 310 has all the answers. But it does chart a course toward improving the U.S. agricultural export situation.

I have circulated a short list of technical amendments to S. 310 that I believe would make it a better bill, and I am sure that my colleagues on this subcommittee will also suggest positive changes. But I believe that the approach taken in this legislation is fundamentally sound.

Before closing, I want to comment briefly on two other pieces of agricultural trade legislation that I see on the docket.

I think that the bill sponsored by Senator Leahy makes some important organizational changes in this nation's machinery for promoting agricultural exports. But I hope that the agricultural trade legislation finally reported out of the Agriculture Committee also contains the changes outlined by S. 310—some of our agricultural trade programs, like the EEP, are in need of overhaul.

The marketing loan for soybeans provided in the bill sponsored by Senators Heflin and Cochran is also a sound piece of legislation. I believe that the marketing loan is an attractive alternative to the EEP for making U.S. agricultural exports competitive. I also have sponsored legislation to extend marketing loans to wheat, feed grains, and soybeans.

I do not believe that U.S. agriculture as we know it can survive without a vigorous export market for our farm products. The economic health of America's heartland depends on an aggressive agricultural trade policy. I hope that Congress can develop that policy in this session.

STATEMENT OF THOMAS O. KAY, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the Subcommittee. I appreciate the opportunity to meet with you to discuss the work of the Foreign Agricultural Service and the various tools that we are using to enhance U.S. agricultural exports.

When you consider that roughly one-quarter of all that U.S. farmers produce is destined for overseas ports, the importance of exports to the future of U.S. agriculture is clear. With other nations similarly dependent on exports, competition has grown at a breakneck pace.

Nevertheless, the United States is more than holding its own in the world marketplace. U.S. agricultural exports are expected to total 114 million tons in fiscal 1987, a 4-percent increase from a year earlier.

The U.S. agricultural trade balance also is expected to show its first increase in three years, rising from $5.4 billion in fiscal 1986 to a projected $6.0 billion this fiscal year.

FAS operates the programs under its purview within a market-oriented philosophy. Today I would like to discuss those programs briefly and tell you how they are working to enhance our agricultural exports.

TRADE POLICY ACTIVITIES

To meet the export challenge the Foreign Agricultural Service is active on a number of fronts. Among the most prominent efforts are those in the area of trade negotiations. U.S. agriculture has a major stake in what is achieved during the Uruguay Round of the Multilateral Trade Negotiations, which was launched under the General Agreement on Tariffs and Trade (GATT) last September.

The Uruguay Round Ministerial Declaration, agreed to by the Ministers at the opening of the GATT talks in Punta del Este, was a landmark for agriculture. For the first time, an entire section was devoted to agriculture, setting out the scope of negotiations in broad terms and explicitly calling for all measures to be subject to negotiation.

The Uruguay Round provides an opportunity to develop global solutions to the problems now besetting world agriculture, solutions that will benefit agriculture in all nations.

The three areas all countries are pledged to address are subsidies that directly or indirectly impact on trade; import barriers; and food, plant and animal health regulations.

In addition, the United States is seeking improvement in general GATT dispute settlement procedures so that once trading nations have agreed on better rules, we can be assured these rules will be applied consistently and dependably. As it now stands, procedures are too easily blocked by the parties to a dispute when they believe the rules have not been interpreted to their advantage.

A streamlined GATT process will make our use of Section 301 more effective by providing for timely resolution of disputes under GATT rules. As part of this Administration's tougher attitude about trade, Section 301 is a valuable tool which we will continue to use aggressively as situations warrant.

The Uruguay Round agricultural group met in Geneva last month, appointed a chairman and began substantive discussions. Work is underway and the group expects to meet again in May.

The Uruguay Round is not the only arena where we have been negotiating for liberalized trade. We have been working with the EC to try to resolve major prob-

lems revolving around the accession of Spain and Portugal to the EC. Together, these two countries represent a $1 billion market for U.S. farmers.

Late in January, we reached a settlement on this matter—the first time the United States has received compensation for the loss of a grain market resulting from enlargement of the EC. The United States will receive concessions that will keep the doors open to corn and sorghum sales to Spain and Portugal, as well as additional EC tariff reductions on 26 other agricultural and industrial products.

In other talks the United States and the EC tentatively resolved their 17-year-old dispute over citrus trade that should improve access for U.S. products.

We continue to work with the EC to resolve other contentious trade issues and we are seriously concerned about the recent EC proposal to impose a consumption tax on vegetable oils.

Closer to home, we are involved in negotiations with Canada to pursue a comprehensive free trade agreement. As you know, Canada is an extremely important market. We are each other's single largest trading partner with overall, two-way trade valued at $200 billion—agricultural trade accounts for nearly $4 billion of the total.

Our negotiations for a free trade agreement are aimed at eliminating both tariff and non-tariff trade barriers in order to promote more cross-border trade. We have also made some progress on phytosanitary issues. Much work lies ahead.

This past year marked a number of other positive market access developments. I will cite just a few.

We have continued to press for improved market access for U.S. farm products—especially high-value and processed items—in Japan, Korea and other Asian countries that enjoy a trade surplus with the United States. Japan agreed to our fumigation procedures for California cherries and walnuts, following our efforts which opened up the Japanese market to California cherries. U.S.-Japan forest product negotiations held under the MOSS (market-oriented sector selective) format resulted in a number of measures to improve access, including a significant tariff cut to be instituted April 1.

Negotiations with Japan to improve access for imported wines resulted in a 33-percent tariff cut for bottled wines, a 50-percent cut for wine coolers, and more equitable tax treatment. We are pursuing Japan's import quotas on 12 agricultural products, including peanuts, beans, and fruit juices, in the GATT. Later this year, we will commence discussions on Japan's beef and orange quotas, with a view to market liberalization.

In Taiwan, we reached agreement with the wine, beer and tobacco monopoly to open the Taiwanese market for U.S. exports for products under its control. Taiwan also agreed to improve access for a range of other agricultural products including a lifting of the import ban on pears and significant tariff reductions for such items as almonds, raisins, cherries, fruit juices and softwood plywood.

Mexico made a number of tariff concessions to the United States as part of the terms of its entry into GATT. Pakistan liberalized its vegetable oil imports, and Korea agreed to liberalize its grapefruit juice market, to reduce tariff differentials between tropical and temperate hardwood, and to begin, for the first time, to open up its cigarette market.

FOOD SECURITY ACT OF 1985

In addition to negotiations, FAS also is responsible for implementing several portions of the Food Security Act of 1985's trade title. This title contains a number of provisions designed to meet subsidized competition, develop new markets and provide food assistance to needy countries.

The trade title reauthorized such long-standing export assistance programs as P.L. 480 (Food for Peace) and established new efforts such as the Targeted Export Assistance Program (TEA) and an intermediate credit guarantee program (GSM-103). It also provided continued support for several export assistance programs such as short-term export credit guarantees (GSM-102) and the Export Enhancement Program (EEP). I will briefly highlight progress in these programs.

SHORT-TERM CREDIT PROGRAM

Through FY 1990 USDA is required to provide at least $5 billon annually in short-term (up to 3 years) credit guarantees for a variety of commodities, including wheat, feed grains and rice. This GSM-102 program guarantees repayment of short-term credit extended to eligible countries that purchase U.S. farm products.

Exports valued at more than $2.5 billion were registered against the $4.5 billion under the GSM-102 program in fiscal 1986. For fiscal 1987, we have announced $3.7 billion worth of credit guarantees for 25 countries.

INTERMEDIATE CREDIT PROGRAM

Last summer we launched the Intermediate Credit Guarantee Program. At least $500 million must be made available this year for guarantees that run from 3 to 10 years. This program is designed to help developing nations make the transition from concessional financing to cash purchases.

Export credit guarantees valued at $377 million were announced in fiscal 1986 for breeding livestock and other commodities. Thus far in 1987 we have announced $229 million worth of intermediate guarantees.

PUBLIC LAW 480

Many new activities have been added to Public Law 480 (Food for Peace) Program. This program has a 30-year record of success in supporting U.S. market development, economic, humanitarian, and foreign policy objectives.

This fiscal year, the total P.L. 480 program level is roughly $1.5 billion.

The Title I concessional sales program has been effective in both economic development and in the creation of commercial markets for U.S. farm products. It provides up to 40-year credit terms to foreign nations so that they can purchase U.S. farm products.

Last year, agreements were signed with 33 countries, covering 5.6 million tons of seven commodities valued at $872 million.

In addition, 2.1 million tons of Title II commodities, valued at $451 million, were approved for donation to 72 countries.

A new program, Food for Progress, will use commodities under the authority of P.L. 480 or Section 416 to support efforts of needy countries to implement agricultural reform through private enterprise.

Another new effort under P.L. 480, the Local Currency Initiative, will be supporting economic growth via the private sector in recipient countries.

SECTION 416

The Section 416 foreign donation program was broadened so that all edible commodities acquired by CCC in the normal course of operations are eligible to the extent they cannot be disposed of in normal domestic channels without impairment of the price support program or sold abroad at competitive world prices. This year, 500,000 tons of grains and oilseeds and 150,000 tons of dairy products will be made available for shipment to needy countries.

TARGETED EXPORT ASSISTANCE PROGRAM

Under the Targeted Export Assistance Program, USDA uses surplus stocks from the Commodity Credit Corporation to partially reimburse organizations for export promotion programs they undertake. The goal of the program is to offset the unfair trade policies of competing nations.

During fiscal 1986, we signed 43 contracts to provide $110 million in promotional assistance for a variety of products. The projects were wide ranging and imaginative. One TEA program for wheat provides funds for constructing a pilot flour mill and cereal laboratory in Egypt. A TEA program promoting cotton in Western Europe and Asia aims at reacquainting consumers and textile millers with the advantages of using U.S. cotton.

The "Summit House" in Tokyo, of which we spoke last year at this time, continues to be one of the most effective market development tools the U.S. wood products industry has available. Since "Summit House" was opened in May 1986, over 20,000 builders, architects and engineers have toured the structure. The Japanese Ministry of Construction (MOC) has decided to seek legislative approval for a change in the building codes which could have a major positive impact on U.S. wood product exports to Japan. The MOC proposal would relax present restrictions on the construction of three-story wooden buildings in urban areas.

EXPORT ENHANCEMENT PROGRAM

The Export Enhancement Program is another way in which we are offsetting the effects of unfair trading practices. Under EEP, bonuses of CCC-owned commodities

are awarded to exporters to encourage trade with markets where the United States has been undercut by unfair competition.

Since EEP was begun in the summer of 1985, there have been 64 initiatives announced for 40 countries. Commodities have included grains and products, eggs, poultry, dairy cattle and vegetable oil. So far, 13 million tons of commodities have been sold. EEP initiatives accounted for 3 percent of all U.S. farm exports and about one-fourth of U.S. wheat sales in fiscal 1986.

LONG-TERM MARKET DEVELOPMENT

In addition to efforts like the TEA and EEP programs, FAS also has responsibility for long-term market development. Since 1954, this work has been carried out principally through nonprofit agricultural trade associations called cooperators. During 1986, FAS and cooperator groups conducted about 5,600 promotional activities in 130 countries worldwide. Cooperator groups contribute the major share of the operating expenses of this joint market development program. In fact, over the 30-year history of the program, cooperator contributions on the average have exceeded U.S. Government outlays by a ratio of 2 to 1.

GLOBAL AGRICULTURAL NETWORK

To develop and implement international programs like the ones I have mentioned, we rely on a network of agricultural counselors, attachés and trade officers who represent and promote U.S. agricultural interests around the world.

These agricultural experts work to help U.S. exporters make sales, to maximize trade access for U.S. products, to collect, analyze and report essential agricultural information and to implement U.S. agricultural export programs.

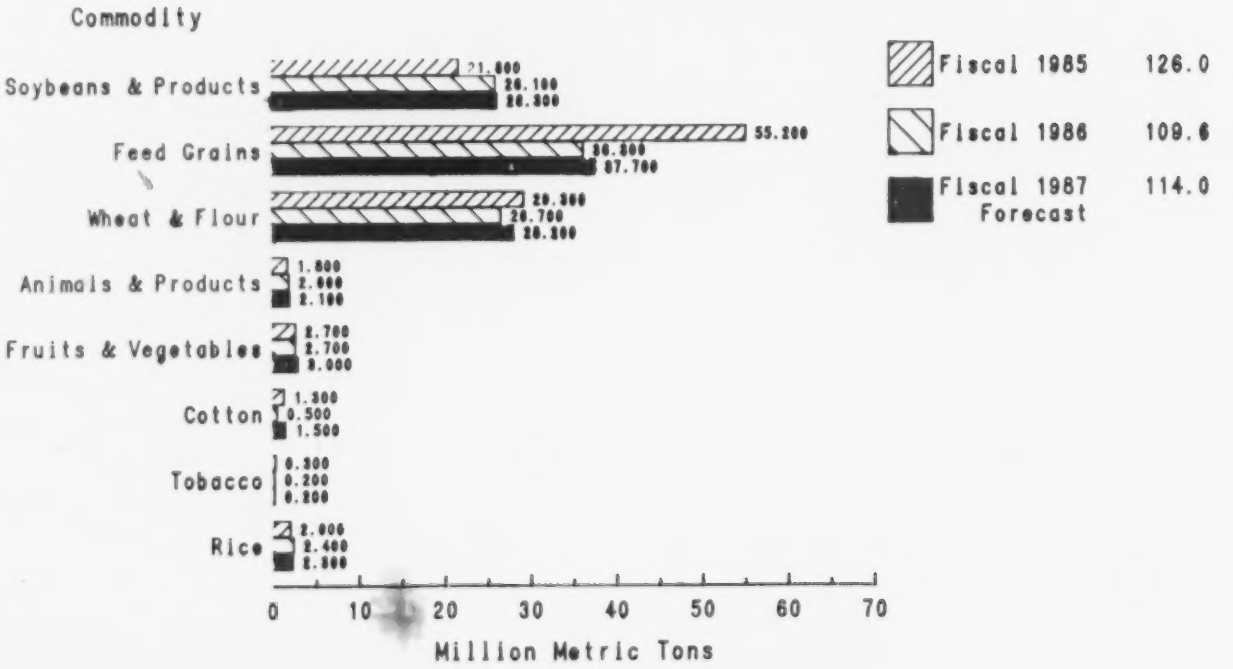
That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

[Attachments follow:]

U.S. AGRICULTURAL EXPORTS BY COMMODITY

VOLUME (IN MILLION METRIC TONS)

(FY 1985 and 1986 Actual vs. FY 1987 Forecast)

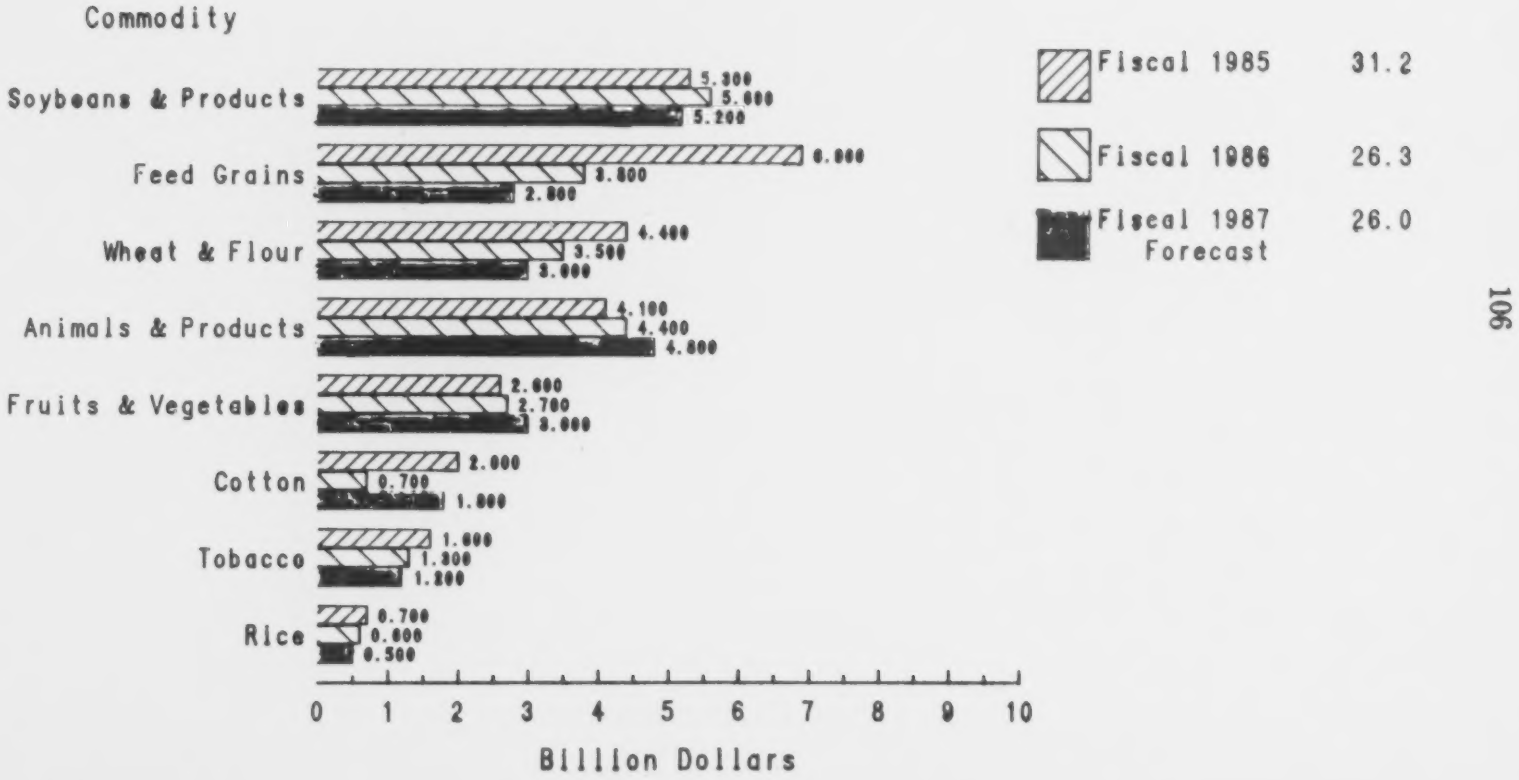


Source: FAS/IAS/TEID

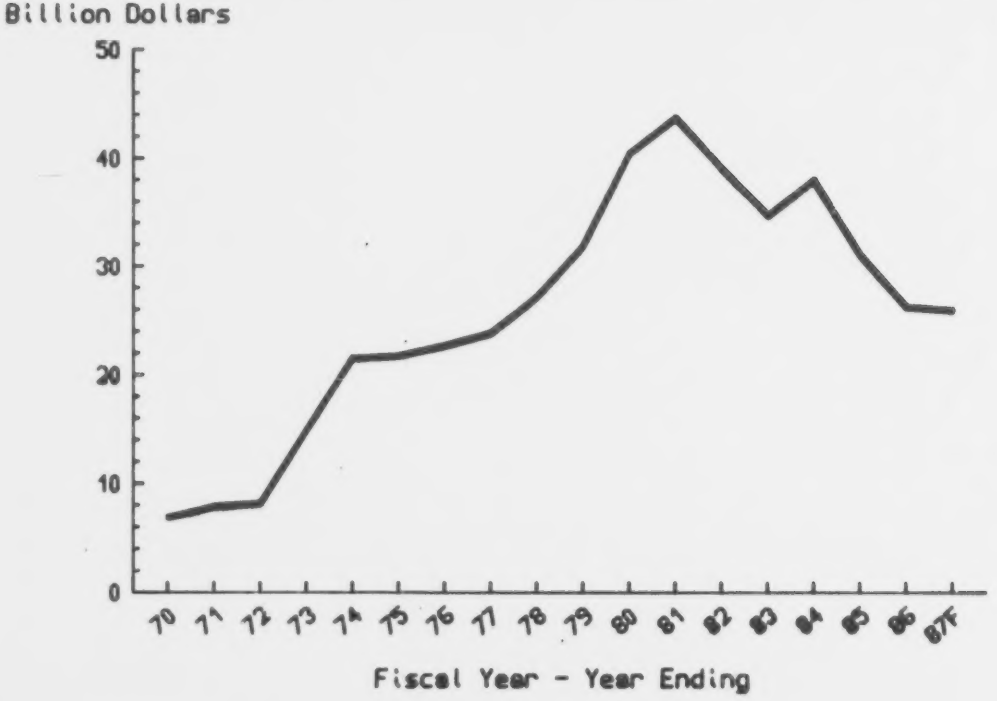
U.S. AGRICULTURAL EXPORTS BY COMMODITY

VALUE (IN BILLION DOLLARS)

(FY 1985 & 1986 Actual VS FY 1987 Forecast)

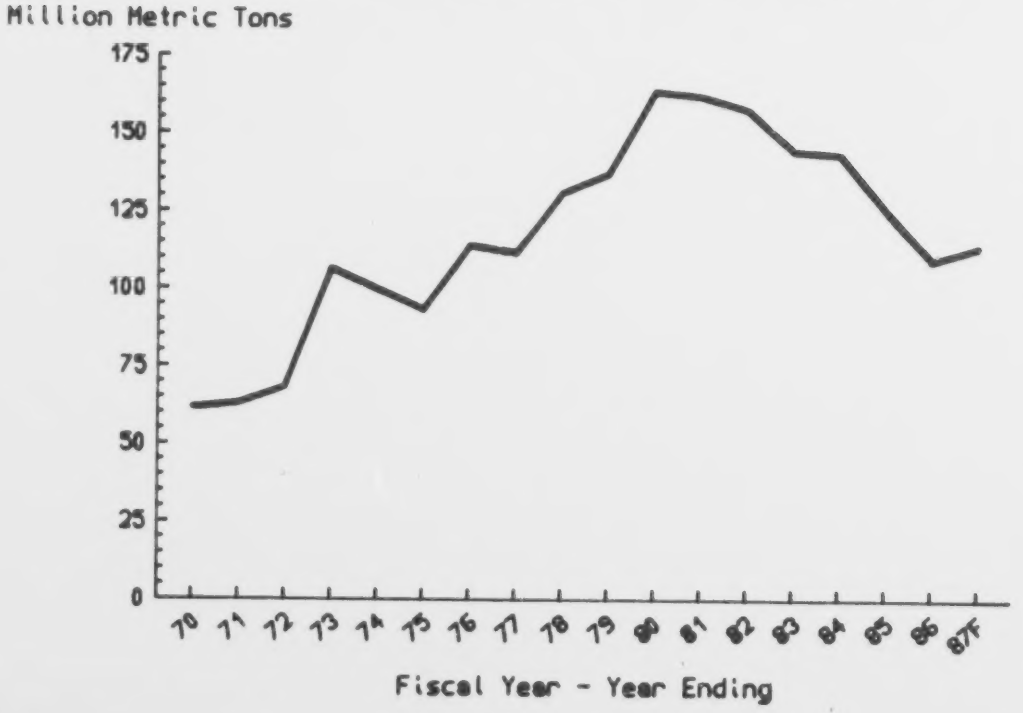


HISTORICAL PERSPECTIVE OF U.S. AGRICULTURAL TRADE FISCAL YEARS 1970 - 1987 FORECAST



Source: FAS/IAS/TEID

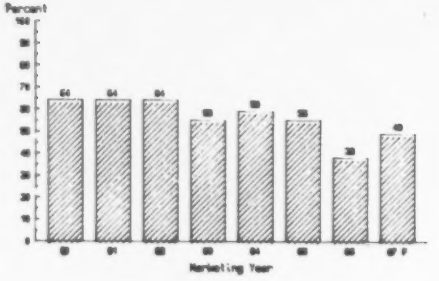
HISTORICAL PERSPECTIVE OF U.S. AGRICULTURAL TRADE FISCAL YEARS 1970 - 1987 FORECAST



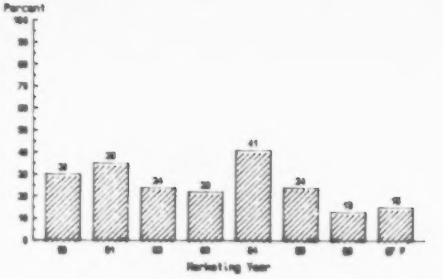
Source: FAS/IAS/TEID

U.S. EXPORTS OF SELECTED COMMODITIES
As a Percentage of Production

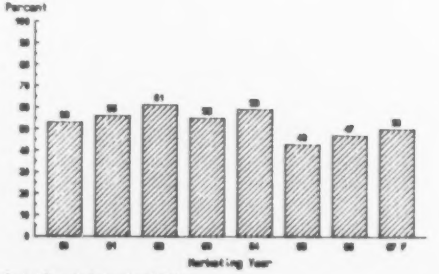
WHEAT AND FLOUR



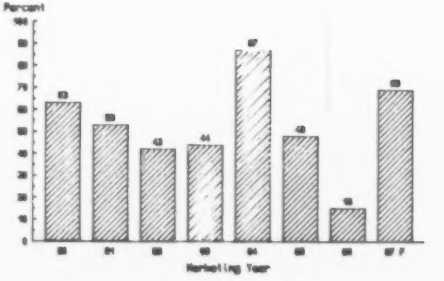
COARSE GRAINS



SOYBEANS AND MEAL



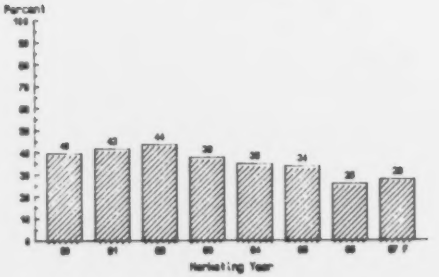
COTTON



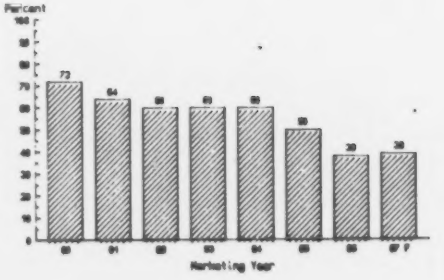
Source: Trade & Economic Information Division
International Agricultural Statistics
Foreign Agricultural Service

U.S. EXPORTS OF SELECTED COMMODITIES
As a Percentage of World Trade

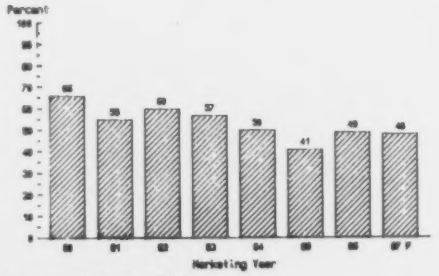
WHEAT AND FLOUR



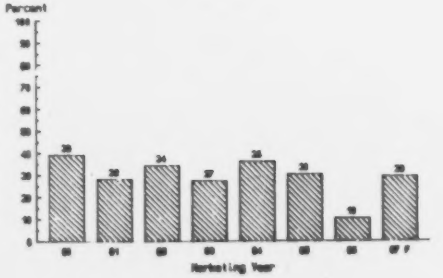
COARSE GRAINS



SOYBEANS AND MEAL

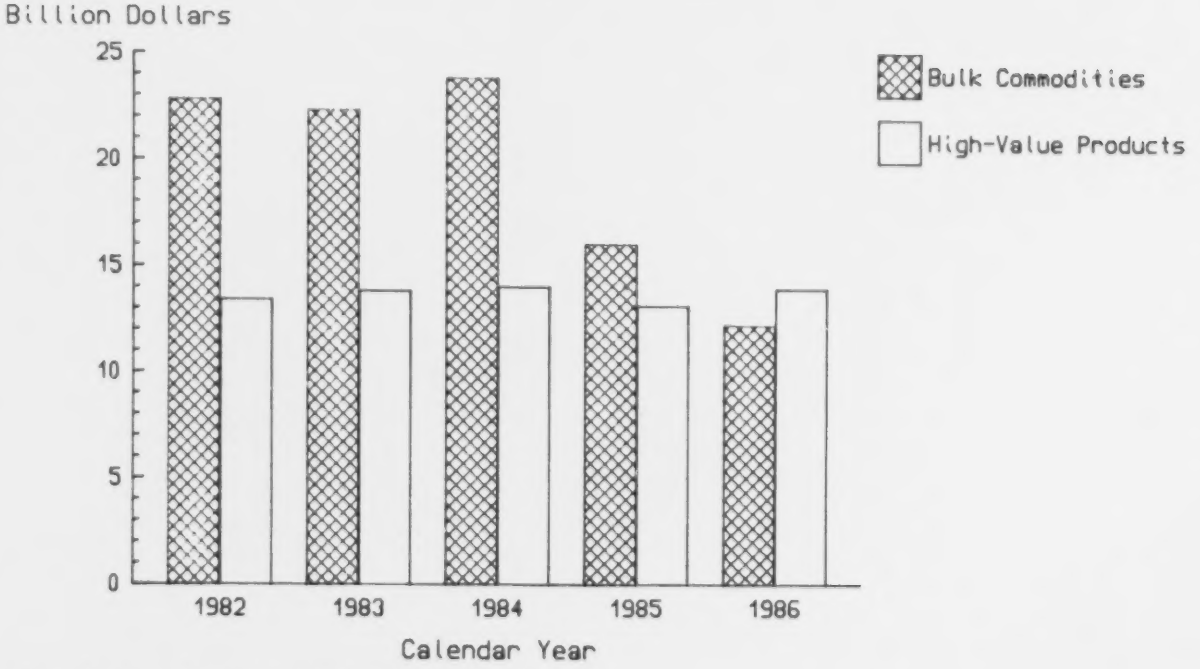


COTTON



Source: Trade & Economic Information Division
International Agricultural Statistics
Foreign Agricultural Service

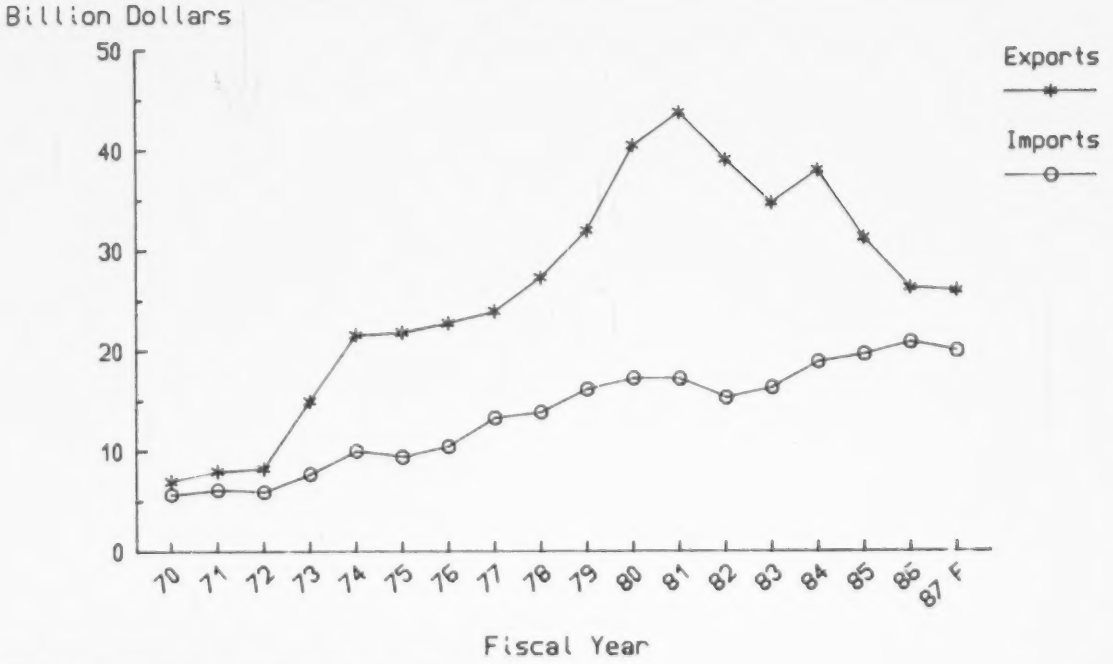
U.S. AGRICULTURAL EXPORTS OF BULK COMMODITIES AND HIGH-VALUE PRODUCTS CY 1982 - 1986



Source: Trade & Economic Information Division
International Agricultural Statistics
Foreign Agricultural Service

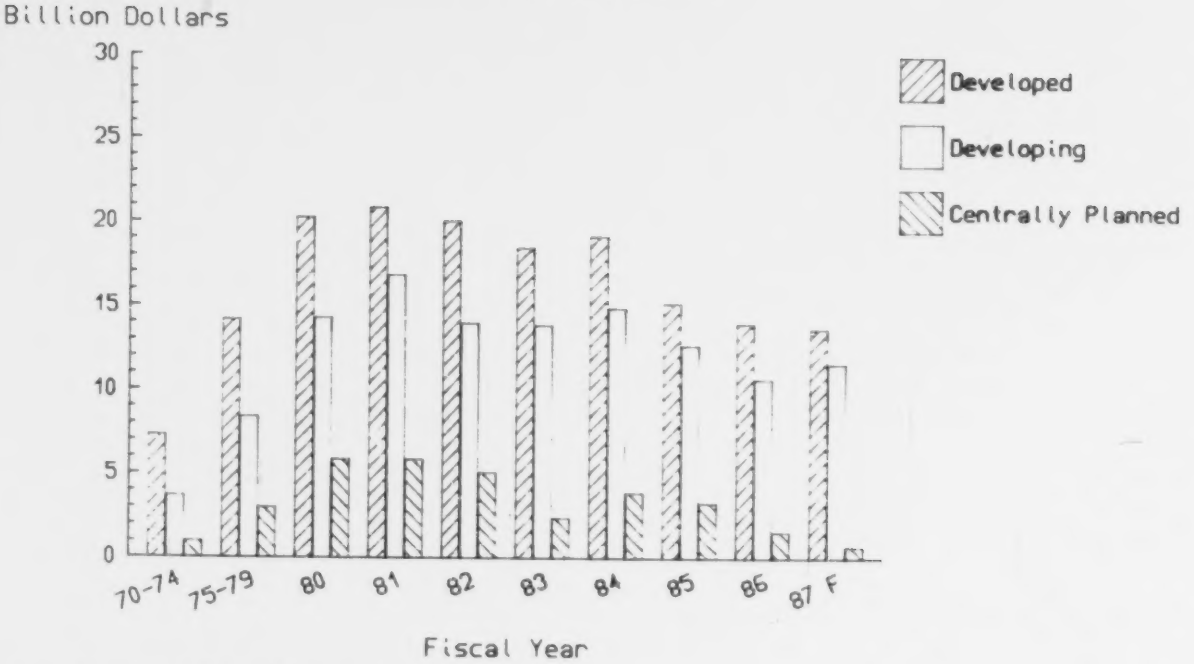
U.S. TOTAL AGRICULTURAL EXPORTS AND IMPORTS

Includes Fiscal 1987 Forecast



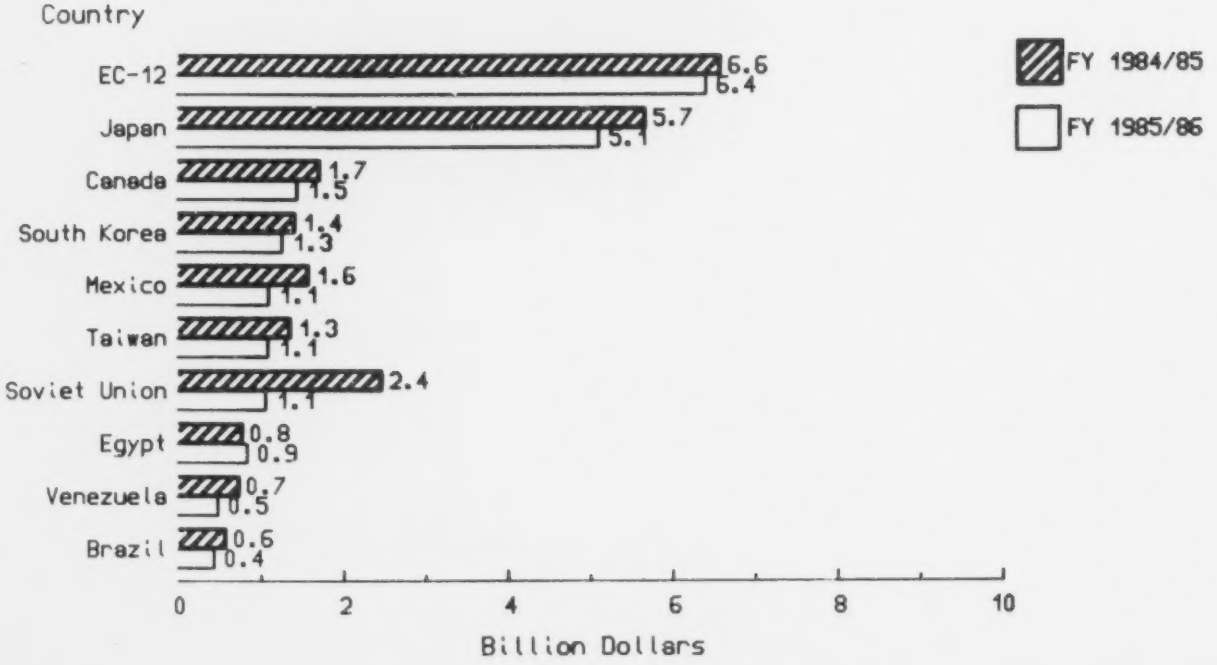
Source: Trade & Economic Information Division
International Agricultural Statistics
Foreign Agricultural Service

U.S. AGRICULTURAL EXPORTS TO Developed, Developing and Centrally Planned Economies



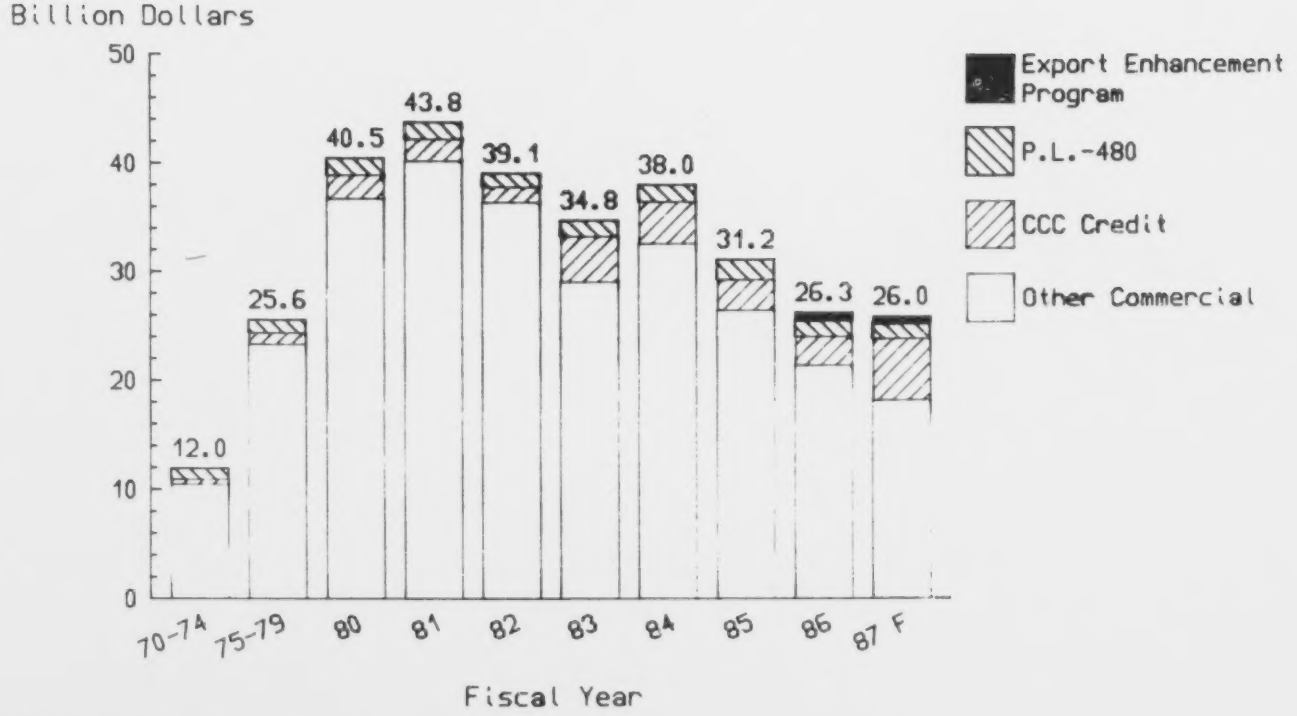
Source: Trade and Economic Information Division
International Agricultural Statistics
Foreign Agricultural Service

U.S. AGRICULTURAL EXPORTS
TO TOP TEN MARKETS
Fiscal 1984/85 Versus Fiscal 1985/86



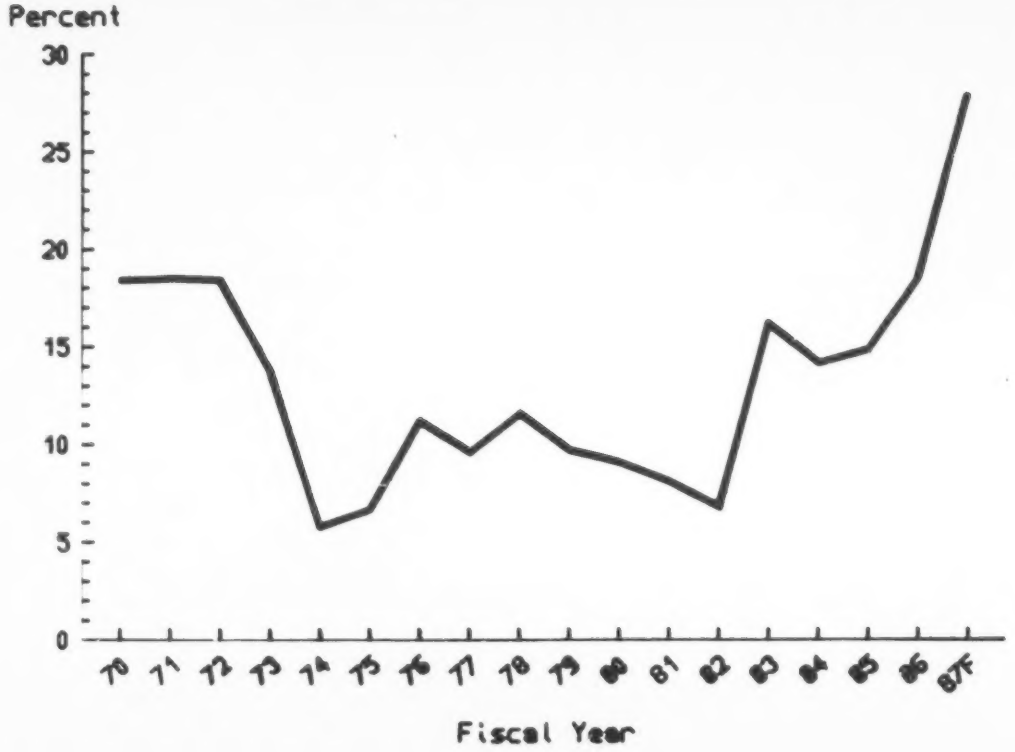
Source: FAS/IAS/TEID

U.S. AGRICULTURAL EXPORTS:
Commercial, CCC Credit, P.L.-480 and EEP

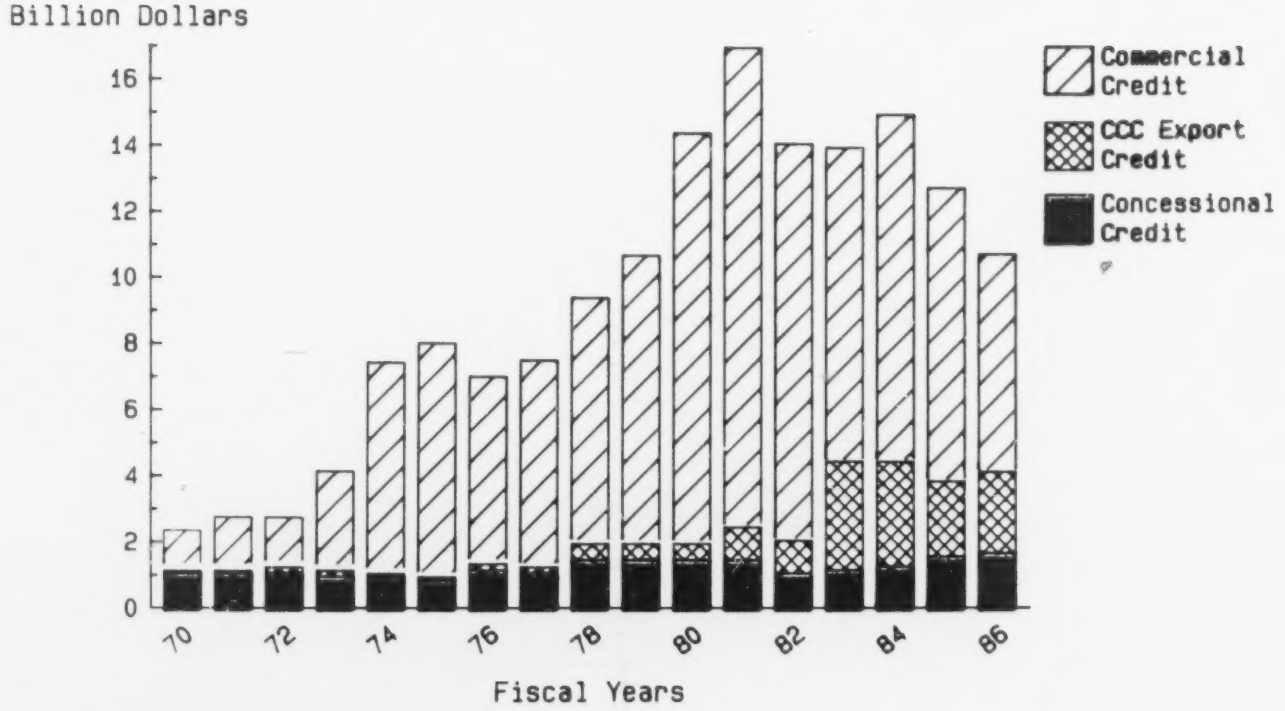


Source: Trade & Economic Information Division
International Agricultural Statistics
Foreign Agricultural Service

SHARE OF U.S. AGRICULTURAL EXPORTS
UNDER GOVERNMENT PROGRAMS
Fiscal Years 1970 - 1987 Forecast

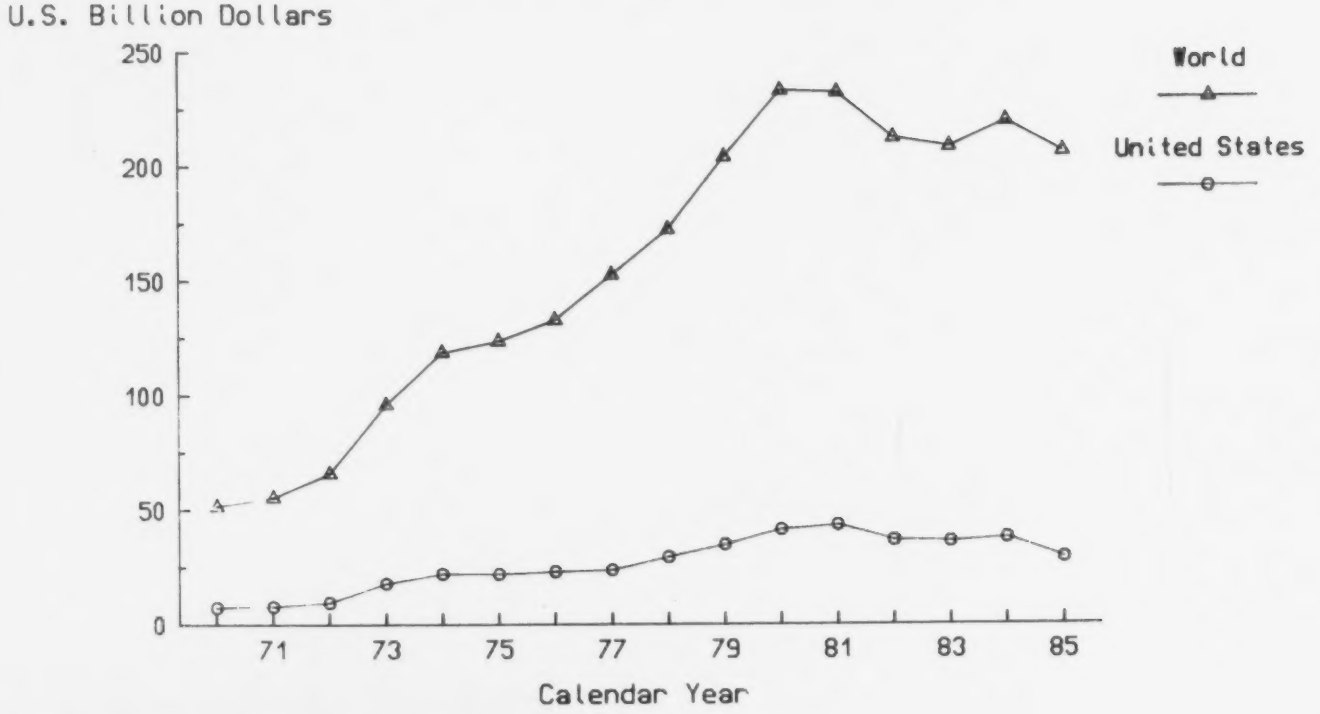


U.S. AGRICULTURAL EXPORTS TO DEVELOPING COUNTRIES



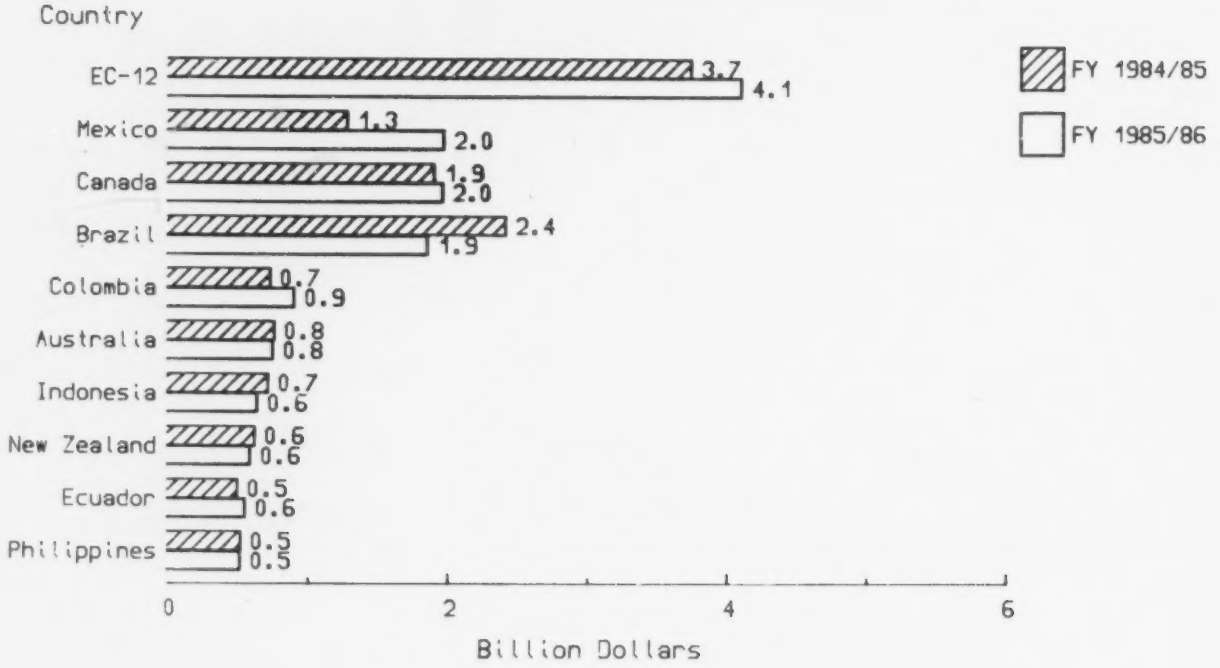
Source: Trade & Economic Information Division
International Agricultural Statistics
Foreign Agricultural Service

TRENDS IN U.S. AND WORLD AGRICULTURAL EXPORTS
Calendar Year 1970-1985



Source: Food and Agricultural Organization
United Nations Trade Database
U.S. Bureau of the Census

U.S. AGRICULTURAL IMPORTS
FROM TOP TEN SUPPLIERS
Fiscal 1984/85 Versus Fiscal 1985/86

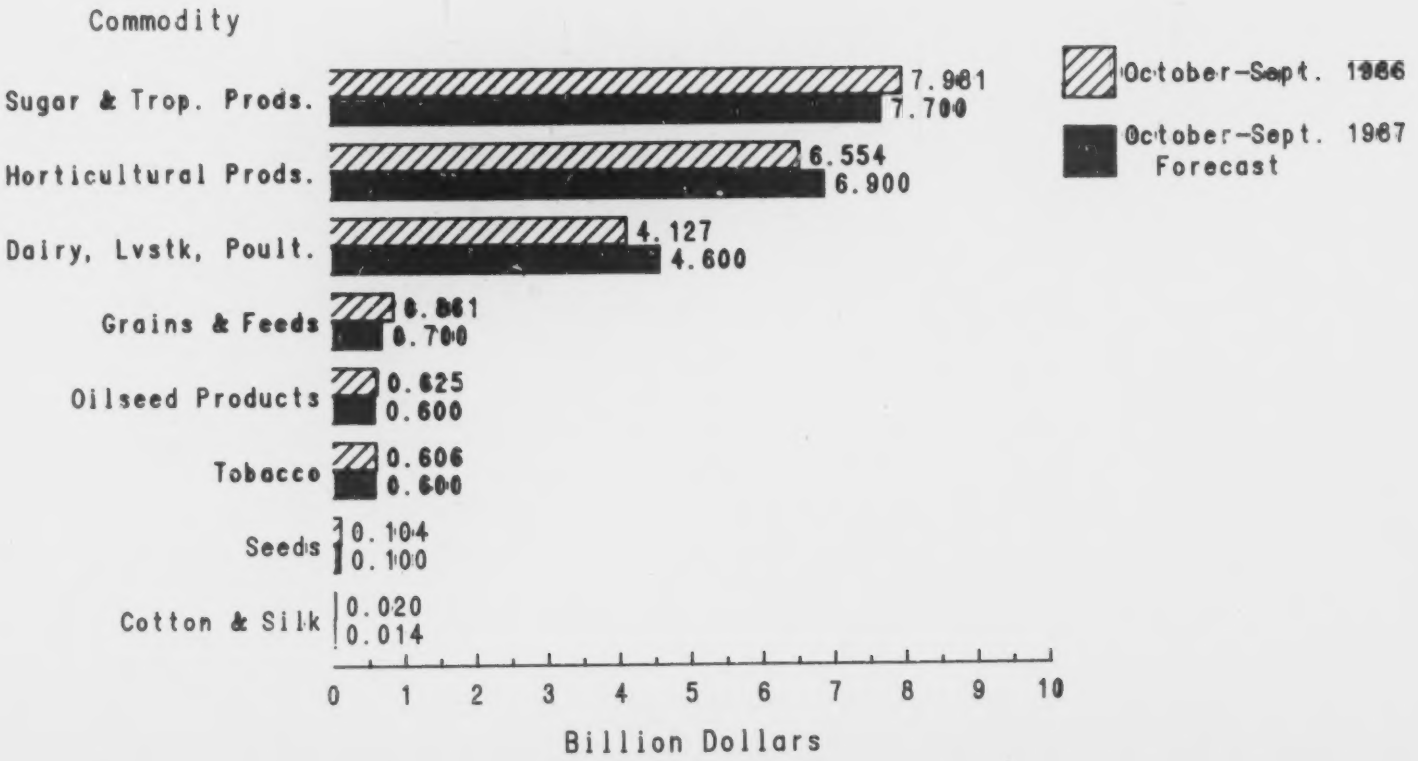


Source: FAS/IAS/TEID

U.S. AGRICULTURAL IMPORTS BY COMMODITY

VALUE (IN BILLION DOLLARS)

(FY 1986 vs. FY 1987 Forecast)



Agricultural Export Assistance Update

(Prepared by the Foreign Agricultural Service, U.S. Department of Agriculture—Revised March 2, 1987)

Public Law 99-198, the Food Security Act of 1985, was signed into law on December 23, 1985. Among its 17 titles was an extensive title dealing with trade—Title XI. This title contains a number of provisions designed to meet subsidized competition, develop new markets, and provide food assistance to needy countries. It includes reauthorizing such longstanding export assistance programs as Public Law 480 (Food for Peace) and establishing new efforts such as the Targeted Export Assistance Program. It also provides continued support for several export assistance programs such as short-term export credit guarantees (GSM-102) and the Export Enhancement Program, which was initiated as a result of budget negotiations in May 1985. The bill also mandates an intermediate credit guarantee program, a new export assistance program to promote the export of meat and dairy animals, and a pilot barter program.

Once enacted into law, it became the responsibility of the U.S. Department of Agriculture to implement and administer all of these export assistance programs. Within USDA, the Foreign Agricultural Service (FAS) has the lead role in developing and executing the programs and initiatives outlined by Congress in Title XI. In this context, FAS is working on many fronts to bring the wide array of programs into operation. When fully operational, these programs will provide approximately $8 billion worth of government assistance to facilitate increased agricultural exports. This amounts to nearly a third of the projected value of U.S. agricultural exports in fiscal 1987.

LONGSTANDING PROGRAMS

The Food Security Act of 1985 reauthorized and added new activities to one of the oldest U.S. export assistance programs—Public Law 480, Food for Peace. In fiscal 1987, agreements under the P.L. 480, Title I/III program have been signed with 10 countries. Over 2.4 million tons of six commodities valued at $322.2 million are covered by these agreements. Current program plans provide for distribution of $834.9 million in commodity shipments during fiscal 1987. For P.L. 480, Title II, 2.0 million metric tons of commodities, valued at $497 million, are approved for donation to 65 countries in fiscal 1987.

The Farm Bill authorized a new activity—the Local Currency Initiative—under the authority of Public Law 480 to generate economic growth via the private sector in recipient countries. To achieve this goal, sales of U.S. farm products for local currency have been reinstated. These local currencies, which may be owned by the U.S. government, will be loaned to private financial intermediaries in the Title I countries, who will then re-lend them to the local private sector. Agreements including local currency have been signed with four countries, and U.S. embassies in several other countries have reported interest in the program.

Another new program, Food for Progress, is to be carried out using the authority of P.L. 480 or Section 416. The program will provide commodities to needy countries—initially in Africa—to encourage agricultural reform. In fiscal year 1986, agreements were signed with Madagascar and Guinea. These agreements provided 60,000 metric tons of Section 416 rice. We are starting the review process for agreements to be signed in fiscal 1987.

The Farm Bill includes several major amendments to Section 416 of the Agriculture Act of 1949. It expanded the list of eligible commodities to include all edible commodities held by the CCC. The CCC has made available 500,000 tons of grains and oilseeds and 150,000 tons of dairy products for shipment to needy countries under this authority during fiscal 1987.

Also, donated commodities may be sold or bartered with the approval of the Secretary of Agriculture to finance distribution, handling and processing costs or for other purposes which are consistent with providing food assistance to needy people. A minimum of 5 percent of all commodities donated to private voluntary agencies and cooperatives are to be sold in each fiscal year.

COMMERCIAL EXPORT CREDIT PROGRAMS

The Food Security Act of 1985 also makes available $5 billion annually for the Export Credit Guarantee Program (GSM-102), which has been in operation since 1980. This program guarantees repayment of short-term loans made to eligible countries that purchase U.S. farm products. In fiscal 1986, FAS made available $4.2 bil-

lion worth of short-term guarantees for 26 countries for a variety of commodities. Exports valued at more than $2.5 billion were registered under the program. For fiscal 1987, FAS has announced $3.6 billion worth of short-term guarantees for 25 countries.

The Food Security Act of 1985 also specified that $500 million be made available for implementation of an Intermediate Credit Guarantee Program (3 to 10-year loans). This program is designed to help developing nations make the transition from concessional financing to cash purchasers. FAS worked closely with the U.S. financial community and prospective clients of this program to develop workable rules to implement and administer this program. The final rule was published July 24. Programs valued at $377 million were announced in fiscal 1986 for breeding stock and commodity groups. However, the limited time remaining in the year did not allow for many sales and financing arrangements to be negotiated. Substantially larger use of the programs is expected in fiscal 1987. Through the middle of February 1987, FAS had announced the availability of $229.5 million worth of intermediate guarantees for fiscal 1987.

PROGRAMS TO COUNTER UNFAIR FOREIGN TRADE PRACTICES

The Food Security Act of 1985 endorsed several export assistance programs implemented by USDA in recent years specifically to counter or offset the adverse effects on U.S. agriculture of unfair trade practices on the part of competitors

The Export Enhancement Program, announced by USDA in May 1985, was extended through 1990 by the 1985 act. As later amended in March 1986, USDA is authorized to use at least $1 billion worth of CCC-owned commodities as export bonuses through fiscal 1988 to make U.S. commodities more competitive in the world marketplace, and to offset the adverse effects of unfair trade practices or subsidies.

Since the Export Enhancement Program was initiated in 1985, 65 initiatives have been announced with 40 countries. Roughly 13 million tons of commodities have been sold, including roughly 8.8 million tons of wheat and wheat flour (grain equivalent), 2.8 million tons of barley, 62,000 tons of semolina, 59,000 tons of barely malt, and 39,000 tons of rice. In addition, 82,000 tons of frozen poultry, 31 million table eggs, 25,000 tons of vegetable oil, 71,000 tons of sorghum and 29,000 dairy cattle have been sold. Poultry feed has been announced as eligible.

These sales represented close to 3 percent of the volume of total U.S. agricultural exports in fiscal 1986, including about one-fourth of U.S. wheat and wheat flour sales. Sales have been more than $1.3 billion so far.

The Targeted Export Assistance (TEA) Program, mandated in Section 1124 of the Food Security Act of 1985, is another program in which the administration is directed to provide export assistance to U.S. agricultural commodities in countering the effects of unfair trade practices on the part of foreign competitors or importers. The legislation provides that support may be in the form of either cash or commodities—the latter is the new feature. For the time being at least, the USDA is using CCC generic commodity certificates exclusively to reimburse eligible participants a portion of their eligible foreign promotional expenses. A support level of $110 million is specified for each fiscal year through 1988, and $325 million annually in the succeeding two years. During fiscal 1986, FAS signed agreements with 43 participating organizations to promote agricultural commodities under the TEA program.

MEAT AND DAIRY EXPORT PROGRAMS

Several new export initiatives outlined in the 1985 Farm Bill are tied to the implementation of the Dairy Termination Program. The Food Security Act directed the USDA to purchase 200 million pounds of red meat for export during the 18-month duration of the program.

On May 14, 1986, USDA announced the sales of 198.4 million pounds (90,000 metric tons), carcass weight equivalent, of beef to Brazil. The USDA has agreed to provide the Department of Defense with up to 12 million pounds (5,440 metric tons) of red meat between July 1, 1986, and October 1, 1987, to supply military commissaries in Europe.

In addition, USDA sold 825 tons of high-quality U.S. beef to European importers under the annual quota available to the United States in the European Community.

On September 2, USDA announced the sale to Argentina of 1,000 metric tons of pork sides. Delivery has been completed.

Other actions taken by USDA to offset the impact on red meat supplies include the announcement of export enhancement initiatives for 52,500 head of dairy cattle to 13 countries and the announcement of more than $160 million in GSM-103 credit guarantees to several countries for the purchase of dairy breeding stock.

The 1985 Farm Bill encourages USDA to use at least 15 percent of export enhancement bonus funds or commodities to promote the export of poultry, beef or pork meat and meat products. Export bonuses worth $56.4 million have been provided to promote the sale of 55,500 metric tons of poultry to Egypt, 25,000 tons to Iraq and 1,000 tons to the Dominican Republic.

Section 153 of the 1985 Farm Bill mandates that a Dairy Export Incentive Program (DEIP) be established and operated by the Commodity Credit Corporation (CCC) from February 21, 1986, through September 30, 1989. The DEIP will make payments (CCC-owned dairy products) on a bid basis to entities that sell U.S. dairy products for export. Export sales under the program must be additional and not displace commercial export sales. The program has been operational since Feb. 6, 1987.

Eligible dairy products, in bulk, are butter, butter oil, anhydrous milk fat, nonfat dry milk, whole milk powder, cheddar cheese, and bulk American cheese for manufacturing. Thirty-three countries are currently eligible for the program.

The 1985 Farm Bill also directs the export of at least 300,000 tons of surplus CCC-owned dairy products annually, including 150,000 tons through donations under international programs. The Mandated Dairy Sales Program requires that in each of fiscal years 1986–88 the CCC export not less that 150,000 metric tons of CCC-owned dairy products. These CCC sales cannot disrupt domestic U.S. markets or world prices and patterns of commercial trade. For fiscal year 1986, 167,786 tons of nonfat dry milk and 3,000 tons of butter oil were sold. Thus far in fiscal 1987, the CCC has sold 186,500 tons of nonfat dry milk and 1,013 tons of butter oil.

The 1985 Farm Bill encourages the development of barter arrangements with other countries. Specifically, the bill states that the Commodity Credit Corporation should, if requested by the Secretary of Energy, make available $300 million in CCC-owned agricultural commodities annually over the next three years to acquire petroleum products abroad for the Strategic Petroleum Reserve.

In summary, the export provisions contained in the Food Security Act of 1985 are facilitating the movement to overseas destinations through commercial channels of a significant quantity of U.S. farm products. However, most U.S. agricultural exports—nearly $20 billion or over two-thirds—are moving without government assistance.

The goal of the 1985 Farm Bill, despite the many export assistance programs it authorizes, is to promote larger U.S. agricultural exports while reducing the need for U.S. government assistance in coming years. While it also provides programs to counter unfair foreign trade practices, the bill's market-oriented approach to trade reflects the belief that government export assistance programs cannot replace the need for U.S. agriculture to be price competitive in the world market.

Title I(III) Public Law 480 FY 1986 Program Summary
September 30, 1986

Status by Country	O.F. Cost	Total Cost	Undesig-nated	Wheat	Wheat Flour*	Rice	Feed Grains	Oil	Tallow	Cotton
	---$ million---			---1,000 metric tons/bales---						
Agreements Signed:										
Bangladesh III (12-10-85), (08-28-86)	--	82.0	--	426	--	35	--	16	--	33
Bolivia III (04-09-86)	--	20.0	--	180	--	--	--	--	--	--
Costa Rica (11-29-85)	--	20.0	--	120	--	--	10	--	--	--
Dominican Rep. (08-18-86)	--	12.9	--	59	--	--	--	17	--	--
Ecuador (06-20-86)	--	5.0	--	48	--	--	--	--	--	--
Egypt (11-12-85)	--	213.0	--	1,038	520	--	--	--	--	--
El Salvador (12-20-85), (06-27-86)	--	44.0	--	148	--	--	--	18	39	--
Ghana (07-14-86)	--	6.0	--	--	--	5	--	--	--	25
Guatemala (07-02-86)	--	15.4	--	92	--	--	--	12	--	--
Guinea (01-03-86)	--	6.0	--	--	--	20	--	--	--	--
Guyana (08-07-86)	--	2.4	--	22	--	--	--	--	--	--
Haiti III (06-05-86)	--	15.0	--	78	--	--	--	12	--	--
Honduras (03-15-86)	--	15.0	--	86	--	--	--	--	5	--
Indonesia (06-02-86)	--	29.4	--	220	--	--	--	--	--	--
Jamaica (01-15-86), (06-06-86), (08-27-86)	--	32.6	--	101	--	33	104	--	--	--
Kenya (07-16-86)	--	10.0	--	55	--	11	--	--	--	--
Liberia (04-28-86)	--	11.0	--	--	--	48	--	--	--	--
Madagascar (09-27-85)	--	8.0	--	--	--	14	--	5	--	--
Maldives (08-25-86)	--	.7	--	7	--	--	--	--	--	--
Morocco (05-27-86), (07-24-86)	--	40.0	--	356	--	--	--	--	--	--
Mozambique (04-14-86), (07-09-86), (08-22-86)	2.5	11.4	--	44	--	10	29	--	--	--
Pakistan (05-19-86)	--	50.0	--	--	--	--	--	120	--	--
Peru (08-11-86)	--	20.0	--	120	--	35	--	--	--	--
Philippines (06-20-86)	--	35.0	--	267	--	--	--	--	--	--
Senegal (12-17-85), (07-03-86)	--	9.5	--	--	--	38	--	--	--	--

*Grain equivalent basis.

Title I(III) Public Law 480 FY 1986 Program Summary
September 30, 1986

Status by Country	O.F. Cost	Total Cost	Undesig-nated	Wheat	Wheat Flour*	Rice	Feed Grains	Oil	Tallow	Cotton
	$ million			1,000 metric tons/bales						
Sierra Leone (05-05-86), (08-01-86)	--	8.0	--	18	--	29	--	--	--	--
Somalia (02-27-86)	4.1	16.5	--	8	19	17	--	15	--	--
Sri Lanka (10-23-85), (08-26-86)	--	33.0	--	261	--	--	--	--	--	--
Sudan (01-26-86), (07-16-86)	9.0	45.0	--	249	88	--	--	--	--	--
Tunisia (07-11-86), (09-04-86)	--	15.5	--	97	--	--	56	--	--	--
Yemen (02-18-86), (07-26-86)	--	10.0	--	44	--	13	--	--	--	--
Zaire (11-27-85)	--	20.0	--	100	--	--	--	--	--	22
Zambia (05-23-86)	--	10.0	--	37	--	--	--	7	--	--
Total	15.6	872.3	--	4,281 ($537.1)	627 ($95.1)	308 ($78.7)	199 ($20.9)	219 ($104.0)	44 ($14.5)	80 ($22.0)

*Grain equivalent basis.

Title I(III) Public Law 480 FY 1987 Program Summary
March 2, 1987

Status by Country	Total Cost	Wheat	Wheat Flour*	Rice	Feed Grains	Oil	Tallow	Cotton
	$ mil.	1,000 metric tons/bales						
Agreements Signed:								
Carry-Ins:								
Dominican Rep. (08-18-86)	17.1	--	--	55	--	19	--	--
Egypt (09-21-86)	15.9	142	--	--	--	--	--	--
Guatemala (09-25-86)	1.0	--	--	--	11	--	--	--
Guyana (08-07-86)	.6	5	--	--	--	--	--	--
Indonesia (09-22-86)	6.5	58	--	--	--	--	--	--
Jamaica (10-31-86)	2.4	--	18	--	--	--	--	--
Subtotal	43.5	205 ($23.0)	18 ($2.4)	55 ($9.9)	11 ($1.0)	19 ($7.2)	--	--
New Programs Signed:								
Costa Rica (1-14-87)	16.0	129	--	--	--	--	--	--
Egypt (12-30-86)	169.1	850	496	--	--	--	--	--
Jamaica (1-15-87)	27.6	109	--	--	--	--	--	--
Morocco (1-22-87)	40.0	126	--	--	--	--	--	--
Sri Lanka (11-13-86)	12.0	107	--	--	--	--	--	--
Zaire (1-22-87)	14.0	50	--	--	--	--	--	--
Subtotal	278.7	1,371 ($166.2)	496 ($65)	--	--	--	--	--
Total Agreements Signed	322.2	1,576 ($189.2)	514 ($67.4)	55 ($9.9)	11 ($1.0)	19 ($7.2)	--	--

*Grain equivalent basis.

Fiscal 1986 Section 416 Transactions

Transactions under Section 416 during fiscal 1986 were as follows in metric tons:

Regular Section 416 Program

Country and/or Organization	
Mexico	44,647
Ethiopia	25,562
Poland	11,484
Brazil	10,000
Tunisia	8,843
Chile	6,806
Dominican Republic	5,033
Mauritania	5,000
Pakistan	3,600
Costa Rica	1,600
Sri Lanka	750
Tanzania	600
Subtotal	125,815

World Food Program

Bangladesh	50,000
Guatemala	2,000
Tanzania	1,000
Peru	756
Ecuador	620
Botswana	600
Chad	580
Niger	405
Uganda	350
Madagascar	335
El Salvador	300
Honduras	270
Bhutan	265
Pakistan	260
Central African Republic	200
Benin	170
Guinea Bissau	141
Sao Tome	112
Haiti	86
Senegal	70
Guyana	60
Costa Rica	42
St. Lucia	30
St. Kitts	15
Subtotal	58,667

Fiscal 1986 Section 416 Transactions (Contd.)
(In metric tons)

Sugar Quota Offset Program	
Peru	40,756
Guatemala	24,000
Zimbabwe	10,828
Mauritius	7,485
Haiti	6,002
Jamaica	2,143
Subtotal	91,214
Food for Progress	
Madagascar	30,000
Guinea	30,000
Subtotal	60,000
TOTAL	335,696

Fiscal 1987 Section 416 Transactions
(In metric tons)

Regular Section 416 Program

Tunisia	57,000
Mexico	33,708
Mozambique	14,521
Jamaica	3,550
Guatemala	2,837
Tanzania	1,570
Guinea	1,200
Chile	736
Subtotal	115,122

World Food Program

Brazil	9,360
India	6,000
Guatemala	4,688
El Salvador	1,043
Ecuador	750
Ghana	462
Bhutan	430
Uganda	350
Niger	255
Mauritius	250
Bolivia	147
Cameroon	80
Mauritania	55
St. Lucia	50
St. Kitts-Nevis	15
Subtotal	23,935

Sugar Quota Offset Program

Domincan Republic	154,237
Philippines	128,500
Costa Rica	19,771
Honduras	19,369
Mozambique	10,073
Guyana	5,529
Madagascar	5,376
Guatemala	3,555
Bolivia	2,534
Subtotal	348,944

TOTAL	488,001

CCC Guarantee Program: Payment Guarantee Commitments
by Country for GSM-102 through September 30, 1986

Country/Commodity (Credit Period Mos.)	FY 1986 Guarantees
	-- $ Million --
Algeria	97.0
Feed Grains (36)	26.9
Wheat (36)	70.1
Argentina	0.8
Breeder Horses (36)	0.8
Brazil	365.0
Beans, Dry Edible (36)	30.0
Feed Grains (36)	120.0
Potatoes, Fresh (36)	15.0
Rice (36)	50.0
Wheat (36)	150.0
Chile	50.0
Feed Grains (36)	8.0
Wheat/Wt. Flour (36)	42.0
Colombia	100.0
Tallow (36)	4.0
Wheat (36)	96.0
Ecuador	105.0
Animal Milk Replacer (36)	0.5
Breeder Stock (36)	6.0
Cotton (36)	3.5
Feed Grains (Including Malting Barley) (36)	4.0
Planting Seeds/ Nursery Stocks (36)	1.0
Tallow/Greases (36)	5.0
Veg. Oils (36)	30.0
Wheat (36)	55.0
Egypt	367.5
Cotton (24) **	22.0
Cotton (36) **	40.0
Feed Grains (12) **	2.5
Feed Grains (24) **	25.0
Oilseeds (12) *	20.0
Oilseeds (24) **	17.0
Protein Meals (12) *	10.0
Tallow (24) **	11.0
Tobacco (24) **	35.0
Tobacco (36) **	40.0
Wheat (24) **	25.0
Wheat (36) **	64.0
Wheat Flour (36) **	56.0

Country/Commodity (Credit Period Mos.)	FY 1986 Guarantees
	-- $ Million --
El Salvador	12.0
Feed Grains (36)	1.4
Oilseeds (36)	2.4
Poultry Breeding Stock (Including Fertilized Eggs) (36)	1.2
Protein Meals (36)	7.0
Guatemala	25.0
Feed Grains (36)	2.0
Planting Seeds (36)	0.3
Poultry Breeding Stock (including Fertilized Eggs) (36)	0.7
Protein Meals (36)	3.0
Tallow (36)	9.0
Veg. Oils (36)	10.0
Haiti	10.5
Lumber (12)	1.3
Planting Seeds (12)	0.2
Tallow/Greases (12)	1.5
Wheat (12)	7.5
Honduras	11.0
Beans, Dry Edible (36)	1.0
Breeder Livestock (36)	1.8
Corn, White (36)	1.5
Oilseeds (36)	1.5
Planting Seeds (12)	2.0
Poultry Breeder Stock (Including Fertilized Eggs) (36)	0.2
Protein Meals (36)	3.0
Hungary	37.0
Almonds, Shelled (36)	0.5
Breeding Materials (36)	1.25
Cotton (36)	4.75
Protein Meals (36)	28.5
Soy Protein Products (For Human Consumption) (36)	2.0

* Available for private sector purchases.
** Reserved for public sector purchases.

CCC Guarantee Program: Payment Guarantee Commitments
by Country for GSM-102 through September 30, 1986, Cont.

Country/Commodity (Credit Period Mos.)	FY 1986 Guarantees
	-- $ Million --
Iraq	475.0
Beans, Dry Edible/ Peas/Lentils (36)	15.0
Corn (36)	64.3
Cotton and/or Cotton Yarns/Wool (36)	20.0
Hides and/or Skins and Leather (36)	16.0
Oilseeds/Protein Meals and/or Protein Concentrates of Veg./ Animal Origin (36)	51.0
Planting Seeds (36)	12.0
Rice (36)	115.0
Soft Drink Concentrate (36)	7.0
Sugar (U.S. Grown & Refined) (36)	23.0
Veg. Oils and/or Tallow (36)	24.0
Wheat (36)	110.0
Wheat Flour (36)	17.7
Jamaica	60.0
Cotton (36)	2.0
Feed Grains (36)	9.0
Grape Concentrate (36)	0.2
Hops (36)	0.4
Lumber (36)	8.5
Malt (36)	1.4
Oilseeds (36)	11.0
Planting Seeds (36)	0.5
Protein Meals (36)	2.0
Rice (36)	10.0
Tallow (36)	3.0
Tobacco (36)	0.5
Veg. Oils (36)	4.0
Wheat/Wt. Flour (36)	7.5
Jordan	90.0
Feed Grains (36)	17.7
Rice (36)	12.0
Wheat (36)	54.0
Undesignated	6.3
Korea	535.0
Cotton (36)	265.0
Feed Grains (18)	40.0
Soybeans (18)	50.0
Tallow (18)	20.0
Wheat (18)	160.0
Mexico	900.0
Beans, Dry Edible (36)	81.0
Breeder Livestock (36)	5.0
Breeder/Nonbreeder Livestock (Including Semen, Embryos and Embryo Transplants) (36)	30.0
Feed Grains (36) *	273.0
Oilseeds (36)	296.0
Protein Meals (36)	26.0
Tallow (36)	63.0
Veg. Oils (36)	106.0
Wood Pulp	20.0
Morocco	150.0
Wheat (36)	150.0
Pakistan	115.0
Peas, Dry (12)	2.0
Protein Meals of Veg./ Animal Origin (12)	8.0
Veg. Oils (24)	60.0
Wheat (36)	45.0
Portugal	310.0
Feed Grains (30)	218.0
Rice (30)	19.0
Wheat (30)	73.0
Senegal	8.5
Wheat (360-day)	8.5
Taiwan	3.0
Livestock, Beef and Dairy (36)	3.0
Tunisia	41.0
Wheat (36)	41.0

*Includes corn (white and yellow), sorghum, barley and oats.

CCC Guarantee Program: Payment Guarantee Commitments
by Country for GSM-102 through September 30, 1986, Cont.

Country/Commodity (Credit Period Mos.)	FY 1986 Guarantees
	-- $ Million --
Turkey	142.0
Cattle Dairy (36)	3.0
Feed Grains (36)	9.0
Semen (36)	2.0
Tallow (36)	5.0
Wheat (36)	120.0
Wooden Telephone Poles (36)	3.0
Yemen Arab Republic	55.0
Feed Grains (36)	5.0
Mixed Poultry Feed (36)	5.0
Sugar (36)	5.0
Wheat (36)	30.0
Wheat Flour (36)	10.0
Yugoslavia	110.0
Cotton (36)	60.0
Hides & Skins (36)	40.0
Protein Meal of Veg./ Animal Origin (36)	10.0
Total for GSM-102	4,175.3

CCC Guarantee Program: Fiscal 1987 Payment Guarantee Commitments
by Country for GSM-102 through February 13, 1987

Country/Commodity (Credit Period Mos.)	FY 1987 Guarantees
	-- $ Million --
Algeria	380.0
Beans, Dry Edible (36)	15.0
Corn (36)	70.0
Cotton (36)	50.0
Leeks and Onions (36)	4.0
Lentils	14.0
Semolina (36)	30.0
Wheat (36)	197.0
Brazil	380.0
Beans, Dry Edible (36)	15.0
Feed Grains (36)	150.0
Potatoes, Fresh (36)	15.0
Rice (36)	50.0
Wheat (36)	150.0
Chile	50.0
Feed Grains (36)	25.0
Wheat (36)	25.0
Colombia	75.0
Wheat (36)	75.0
Ecuador	60.0
Animal Milk Replacer (36)	0.5
Breeder Stock (36)	1.0
Cotton (36)	1.5
Feed Grains (36)	4.0
Planting Seeds/ Nursery Stock (36)	1.0
Tallow/Greases (36)	5.0
Veg. Oils (36)	2.0
Wheat (36)	45.0
Egypt	200.0
Cotton (36)	22.0
Feed Grains (36)	16.0
Mullet (36)	2.0
Oilseeds (36)	14.0
Tallow (36)	26.0
Tobacco (36)	40.0
Veg. Oils (36)	14.0
Wheat (36)	26.0

Country/Commodity (Credit Period Mos.)	FY 1987 Guarantees
	-- $ Million --
Egypt Contd	
Wheat Flour (36)	38.0
Wood Products Solid (36)	2.0
El Salvador	20.0
Corn (36)	1.0
Oilseeds (36)	2.0
Poultry Breeder Stock (Including Fertilized Eggs (36)	1.0
Protein Meals (36)	16.0
Guatemala	25.0
Feed Grains (36)	1.0
Oilseeds (36)	2.0
Planting Seeds (36)	0.3
Poultry Breeder Stock (Including Fertilized Eggs) (36)	0.7
Protein Meals (36)	5.0
Rice (36)	2.0
Tallow (36)	9.0
Veg. Oils (36)	5.0
Honduras	11.0
Beans, Dry Edible (12)	2.0
Livestock, Breeder/ Nonbreeder (Incl. Semen, Embryos and Embryo Transplants) (36)	0.5
Oilseeds (12)	1.8
Planting Seeds (36)	1.5
Poultry Breeder Stock (Incl. Fertilized Eggs) (36)	0.2
Protein Meals (12)	5.0
Hungary	15.0
Almonds, Shelled (36)	0.5
Breeder Animals/ Breeding Materials (36)	2.6
Cotton (36)	2.9

CCC Guarantee Program: Fiscal 1987 Payment Guarantee Commitments by Country for GSM-102 through February 13, 1987

Country/Commodity (Credit Period Mos.)	FY 1987 Guarantees
	-- $ Million --
Hungary Contd	
Soy Protein Products (For Human Consumption) (36)	1.0
Vegetable Protein Meals (36)	8.0
Iraq	562.0
Beans/Peas/Lentils, Dry Edible (36)	12.0
Corn (36)	78.0
Cotton and/or Cotton Yarns (36)	20.0
Hatching Eggs/Table Eggs and/or Day-Old Chicks (Layer/Broiler or Breeder) (36)	9.8
Hides and/or Skins (Including a Full Range of Further Processed Commodities such as Wet Blue Hides and Fully Finished Leather) (36)	10.0
Oilseeds (36)	5.0
Planting Seeds (36)	12.0
Poultry Meat, Frozen (36)	30.0
Protein Concentrates (Animal or Vegetable Origin) (36)	15.0
Protein Meals (36)	61.0
Rice (36)	100.0
Soft Drink and/or Fruit Juice Concentrate (36)	13.0
Sugar (U.S.-Grown and Refined) (36)	35.0
Tallow (35)	9.0
Vegetable Oils (36)	24.0
Wheat (36)	95.0
Wheat Flour (36)	20.0
Wood Products (Lumber, Matchsticks, Wood Pulp (36)	22.0
Wool (36)	1.0
Jordan	55.0
Feed Grains (36)	15.0
Rice (36)	15.0
Wheat (36)	25.0
Korea	500.0
Corn (24)	200.0
Feed Grains (12)	40.0
Oilseeds (12)	45.0
Tallow (12)	20.0
Wheat (12)	145.0
Undesignated	50.0
Mauritius	1.5
Cotton (12)	1.5
Mexico	750.0
Beans, Dry Edible (36)	50.0
Feed Grains (36)	320.0
Livestock, Breeder/ Nonbreeder (Including Semen, Embryos and Embryo Transplants (36)	5.0
Oilseeds (36)	205.0
Protein Meal (36)	10.0
Rice (36)	10.0
Tallow (36)	35.0
Veg. Oils (36)	50.0
Wood Pulp (36)	65.0
Morocco	105.0
Wheat (36)	105.0
Pakistan	72.0
Peas, Dry (36)	2.0
Soybean Meal (36)	10.0
Vegetable Oils (36)	60.0
Portugal	115.0
Feed Grains (30	82.1
Wheat (30	32.9

CCC Guarantee Program: Fiscal 1987 Payment Guarantee Commitments
by Country for GSM-102 through February 13, 1987

Country/Commodity (Credit Period Mos.)	FY 1987 Guarantees	Country/Commodity (Credit Period Mos.)	FY 1987 Guarantees
	-- $ Million --		-- $ Million --
Senegal	8.5		
Wheat (12)	8.5		
Tunisia	57.0		
Feed Grains	7.0		
Wheat (36)	50.0		
Turkey	114.0		
Feed Grains (36)	20.0		
Oilseeds (36)	20.0		
Planting Seeds (36)	5.0		
Rice (36)	10.0		
Tallow (36)	6.0		
Telephone Poles (36)	3.0		
Wheat (36)	50.0		
Uruguay	1.0		
Wood Products, Solid (36)	1.0		
Yemen Arab Republic	28.0		
Feed Grains (36)	3.0		
Mixed Poultry Feed (36)	5.0		
Rice (36)	5.0		
Wheat (36)	5.0		
Wheat Flour (36)	10.0		
Yugoslavia	76.0		
Cotton (36)	41.0		
Hides and Skins (36)	15.0		
Oilseeds (36)	10.0		
Veg. Protein Meals (36)	10.0		
Total for GSM-102	3,672.0		

CCC Intermediate Credit Guarantee Program
Payment Guarantee Commitments by Country for GSM-103
As of February 13, 1987

Country/Commodity (Credit Period-Years)	Total FY 1987 Guarantees
	-----$ Million-----
Algeria	5.0
Breeder Livestock (4-7)	5.0
Argentina	3.0
Breeder Livestock (Including Embryos and Frozen Semen) (4-7)	3.0
Chile	3.0
Breeder Livestock (4-7)	3.0
Ecuador	4.0
Breeder Livestock (4-7)	4.0
Guatemala	10.0
Breeder Livestock (4-7)	10.0
Honduras	10.0
Breeder Livestock (Incl. Embryos and Frozen Semen (4-7)	10.0
Iraq	83.0
Beef, Frozen (4-7)	3.0
Breeder Livestock (4-7)	15.0
Eggs, Hatching (4-5)	12.0
Eggs, Table (4-5)	8.0
Protein Concentrates (Animal or vegetable origin) (4-5)	25.0
Tobacco (4-5)	20.0
Jamaica	3.0
Breeder Livestock (4-7)	3.0
Mexico	50.0
Breeder Livestock (4-7)	50.0
Morocco	30.0
Breeder Livestock (4-7)	5.0
Wheat (4-7)	25.0
Tunisia	4.5
Breeder Livestock (4-7)	4.5
Turkey	30.0
Breeder Livestock (4-8)	30.0
Uruguay	1.0
Breeder Livestock (4-7) (Incl. Embryos and Frozen Semen)	1.0
Total for GSM 103	229.5
Total CCC Credits	3,911.5

Export Enhancement Initiatives

The status of USDA's Export Enhancement Program as of Feb. 27, 1987, was as follows in metric tons:

Announced Initiatives	Date Announced	Quantity	Results
64. Iraq table eggs	Feb. 20, '87	189 million	
63. Canary Islands frozen poultry	Feb. 9, '87	5,000	
62. Nigeria wheat	Jan. 28, '87	500,000	
61. China wheat	Jan. 26, '87	1,000,000	Sold 450,000
60. Iraq wheat	Jan. 16, '87	800,000	Sold 220,000
59. Switzerland barley, sorghum	Jan. 16, '87	250,000	Sold 9,000
58. Poland wheat	Jan. 7, '87	500,000	COMPLETE
57. Poland barley, sorghum	Dec. 31, '86	200,000	Sold 102,000
56. Romania wheat	Dec. 23, '86	250,000	
55. Iraq frozen poultry	Dec. 22, '86	60,000	Sold 25,000
54. Dominican Republic table eggs	Dec. 9, '86	25 million	Sold 6.5 million
53. Zanzibar (Tanzania) flour	Dec. 9, '86	20,000	
52. Tunisia barley	Dec. 1, '86	150,000	
51. Gulf Countries dairy cattle (Bahrain, Kuwait Oman, Qatar, United Arab Emirates)	Oct. 30, '86	1,500 head	Sold 359
50. West Africa wheat (Cameroon, Cote d'Ivoire Ghana, Togo)	Oct. 30, '86	345,000	Sold 14,500
49. Dominican Republic poultry	Oct. 29, '86	1,500	Sold 1,133
48. Philippines barley malt	Oct. 20, '86	60,000	Sold 25,000
47. Cameroon wheat flour	Oct. 14, '86	20,000	
46. Romania barley	Sept. 24, '86	200,000	Sold 125,000
45. Venezuela barley malt	Sept. 4, '86	100,000	
44. Cyprus barley	Aug. 26, '86	150,000	Sold 100,000
43. Canary Islands wheat	Aug. 8, '86	100,000	
42. Egypt semolina	Aug. 6, '86	30,000	Sold 15,000
41. EXPIRED(USSR wheat)			
40. Canary Is. dairy cattle	July 28, '86	3,000 head	
39. Hong Kong table eggs	July 28, '86	44 million	Sold 22 million
38. Senegal wheat	July 17, '86	100,000	COMPLETE
37. India vegetable oil	July 8, '86	25,000	COMPLETE
36. Jordan barley	June 17, '86	60,000	
35. Israel barley	June 17, '86	200,000	Sold 36,200
34. Tunisia dairy cattle	May 29, '86	4,000 head	COMPLETE

Export Enhancement Initiatives, Cont.

33.	Algeria dairy cattle	May 29, '86	5,000 head	
32.	Sri Lanka wheat	May 16, '86	125,000	Sold 110,000
31.	Saudi Arabia barley	May 7, '86	500,000	COMPLETE
		Aug. 6, '86	250,000	COMPLETE
		Sept. 16, '86	300,000	COMPLETE
		Oct. 8, '86	200,000	COMPLETE (Sold 201,000)
		Jan. 5, '87	1,250,000	COMPLETE
30.	Algeria barley	Apr. 17, '86	500,000	
29.	Morocco dairy cattle	Apr. 16, '86	4,000 head	Sold 3,987
28.	Turkey dairy cattle	Apr. 16, '86	5,000 head	COMPLETE
27.	Egypt dairy cattle	Apr. 16, '86	6,000 head	COMPLETE
		Sept. 12, '86	10,000 head	Sold 1,855
26.	Yemen poultry feed	Apr. 14, '86	150,000	
25.	Yugoslavia wheat	Apr. 10, '86	200,000	COMPLETE
		June 24, '86	200,000	COMPLETE
		Oct. 7, '86	500,000	Sold 93,050
24.	Indonesia dairy cattle	Apr. 9, '86	7,500 head	COMPLETE
23.	CANCELLED (Syria/wheat--700,000)			
22.	Benin wheat	Apr. 7, '86	45,000	Sold 30,000
21.	Algeria table eggs	Apr. 4, '86	500 million	
20.	Iraq dairy cattle	Apr. 4, '86	6,500 head	Sold 200
19.	Jordan wheat	Mar. 19, '86	75,000	COMPLETE
		June 20, '86	75,000	COMPLETE
		Dec. 31, '86	225,000	
18.	Tunisia wheat	Mar. 18, '86	300,000	COMPLETE
		Aug. 22, '86	800,000	Sold 250,000
17.	Algeria wheat flour	Feb. 25, '86	100,000	
16.	Algeria semolina	Feb. 11, '86	250,000	Sold 30,000
15.	Philippines wheat	Jan. 7, '86	150,000	COMPLETE (152,400)
14.	Zaire wheat	Dec. 27, '85	35,000	COMPLETE
		May 15, '86	45,000	COMPLETE
		Oct. 10, '86	40,000	Sold 25,000
13.	Nigeria barley malt	Dec. 10, '85	100,000	Sold 19,300
12.	Iraq wheat flour	Dec. 9, '85	150,000	Sold 125,000
		Jan. 7, '87	175,000	
11.	Egypt poultry	Nov. 26, '85	8,000	COMPLETE
		Mar. 21, '86	15,000	COMPLETE
		June 18, '86	5,000	COMPLETE
		July 8, '86	15,000	COMPLETE
		Dec. 19, '87	25,000	Sold 12,500
10.	Zaire wheat flour	Nov. 18, '85	64,000	COMPLETE
		May 15, '86	30,000	Sold 15,000
9.	Philippines wheat flour	Nov. 15, '85	100,000	Sold 50,000

Export Enhancement Initiatives, Cont.

8.	Jordan rice	Nov. 8, '85	40,000	Sold 38,700
		Jan. 13, '87	60,000	
7.	Turkey wheat	Oct. 16, '85	500,000	COMPLETE (506,600)
		May 8, '86	500,000	Sold 248,000
6.	Morocco wheat	Sept. 30, '85	1,500,000	COMPLETE
		Dec. 9, '86	790,000	Sold 260,000
5.	Yemen wheat	Sept. 6, '85	100,000	COMPLETE
		Jan. 26, '87	100,000	Sold 25,000
4.	Yemen wheat flour	Aug. 20, '85	50,000	COMPLETE
		Apr. 14, '86	100,000	COMPLETE
3.	Egypt wheat	July 26, '85	500,000	COMPLETE
		Oct. 30, '85	500,000	COMPLETE (512,500)
		June 24, '86	500,000	COMPLETE
		July 29, '86	52,000	Sold 29,000
		Oct. 8, '86	1,000,000	Sold 406,000
2.	Egypt wheat flour	July 2, '85	600,000	COMPLETE
		Aug. 6, '86	600,000	
1.	Algeria wheat	June 4, '85	1,000,000	COMPLETE
		Apr. 10, '86	1,000,000	Sold 354,000
	Algeria durum	Nov. 10, '86	300,000	COMPLETE

Export Enhancement Program Summary
Status as of February 26, 1987

Announced to Date	22,693,730 grains and products (grain equivalent)
	758 million table eggs
	140,500 tons frozen poultry
	52,500 head dairy cattle
	25,000 tons vegetable oil
Sold to Date	9,116,056 wheat
	1,378,376 flour (grain equivalent)
	2,802,200 barley
	61,650 semolina (grain equivalent)
	59,065 barley malt (grain equivalent)
	71,000 sorghum
	38,700 rice
	25,000 vegetable oil
	81,633 frozen poultry
	28,901 head dairy cattle
	28,482,000 table eggs
Total Sales Value:	$1,313.8 million

TARGETED EXPORT PROMOTION PROGRAM

As of March 2, 1987, USDA's Targeted Export Promotion Program announcements were as follows:

DATE ANNOUNCED	COMMODITY	VALUE	COUNTRY
Nov. 4, 1986	Canned peaches, fruit cocktail	$0.5 million	Canada
Oct. 30, 1986	Sunflowerseed and products	$3.0 million	Japan, Mexico, Venezuela, Portugal
Oct. 29, 1986	Chocolate	$2.5 million	Japan, Korea
Oct. 9, 1986	Red meat	$7.0 million	Japan, Hong Kong
Oct. 8, 1986	Processed foods	$3.2 million	Worldwide
Oct. 3, 1986	Pasta	$2.1 million	Pacific Rim, Middle East
Oct. 2, 1986	Cotton	$7.0 million	Asia, Western Europe
Oct. 1, 1986	Pistachios	$0.2 million	Japan, Hong Kong, Singapore, Taiwan
Sept. 30, 1986	Soybeans	$8.5 million	European Community
Sept. 29, 1986	Peanuts	$4.5 million	Western Europe
Sept. 19, 1986	Processed foods	$0.3 million	West Germany
Sept. 17, 1986	Processed foods	$1.4 million	Pacific Rim
Sept. 16, 1986	Processed foods	$0.5 million	Pacific Rim, Western Europe, Middle East, Caribbean
Sept. 16, 1986	Wine	$2.5 million	Pacific Rim, Western Europe
Sept. 12, 1986	Rice	$3.5 million	European Community, Middle East, Africa, Southeast Asia, Caribbean
Sept. 8, 1986	Fresh pears	$0.3 million	Scandinavia, Arabian Gulf, and Pacific Rim.
Sept. 2, 1986	Wheat	$2 million over 3 years	Egypt, Algeria
Aug. 12, 1986	Canned peaches, fruit cocktail	$5.1 million	Pacific Rim, Middle East
Aug. 8, 1986	Feed grains	$2.1 million	To be announced

TARGETED EXPORT PROMOTION PROGRAM, CONTD.

DATE ANNOUNCED	COMMODITY	VALUE	COUNTRY
Aug. 1, 1986	Walnuts	$2 million	Western Europe Japan, Taiwan, Australia
July 28, 1986	Dry peas & lentils	$2.5 million	EC, Colombia, India
July 25, 1986	Table grapes	$0.35 million	Japan
July 18, 1986	Washington State apples	$1.4 million	United Kingdom, Taiwan, Malaysia, Hong Kong, Norway, Middle East
July 17, 1986	Wood	$0.65 million	United Kingdom
July 16, 1986	Wheat	$1.1 million	Developing countries
July 14, 1986	Poultry & eggs	$6 million	Pacific Rim, Middle East countries
June 24, 1986	Feed grains, soybean meal & dairy cattle	$9 million over 3 years	Algeria
June 23, 1986	Florida fresh & processed citrus	$4.6 million	Western Europe & Pacific Rim
May 20, 1986	Dried prunes	$4 million	Western Europe
April 30, 1986	Wood	$1.95 million over 3 years	Japan
April 28, 1986	Wine	$2.3 million	Japan, United Kingdom, Hong Kong, Singapore
April 25, 1986	Almonds	$0.9 million	Western Europe, Japan, Korea
April 17, 1986	Canned peaches, Fruit cocktail	$2.5 million	Japan, Taiwan
April 16, 1986	Walnuts	$7 million 1/	Western Europe, Japan
April 16, 1986	Raisins	$6.3 million	Western Europe, Pacific Rim Middle East
April 14, 1986	Arizona and California fresh and processed citrus	$8.5 million	Japan, Hong Kong Singapore, Malaysia
March 27, 1986	Frozen potatoes	$2 million	Japan, Hong Kong Taiwan, Malaysia Singapore

STATEMENT OF STEVEN A. MCCOY, INTERNATIONAL TRADE CONSULTANT, E.A. JAENKE & ASSOCIATES

INTRODUCTION

Mr. Chairman, it is a great personal honor to appear before you today to comment on the work of the National Commission on Agricultural Trade and Export Policy, a body which until only recently it was my privilege to serve.

The conclusion of the Commission's work on agricultural trade policy coincides with the start of Congressional consideration of such matters in the 100th Congress. I hope that, for your purposes as well as those of the Commission, this timing is propitious. The Commission labored mightily throughout 1985 and 1986 to construct a comprehensive package of recommendations designed to improve both U.S. agricultural trade performance and government policy in that regard. Many of our earlier recommendations were embodied in the text of the 1985 Farm Act. In 1986, the House approved a set of later Commission proposals as part of that year's omnibus trade legislation. While action in respect to that bill became stalled in the 99th Congress, these later proposals remain the substance of the agricultural title of H.R. 3, which, if my understanding is correct, will be the vehicle for mark-up of trade legislation in the House this year. I am pleased, therefore, to conclude that both your Committee and the Senate will have further opportunity to review the work of the Commission in some detail. There has been some progress in matters of agricultural trade since the Commission's establishment in 1984. However, much more remains to be done. Legislation this year provides unprecedented possibilities for real reform of both the content and the exercise of agricultural trade policy. Everyone in agriculture is aware of the seriousness of this undertaking and commends the Subcommittee for its attention to such matters as a priority of your agenda this year.

BACKGROUND OF THE COMMISSION

The Commission was established by an Act of Congress in August, 1984 and, by law, was officially terminated in September. 1986. A record of the Commission's work is contained in the two volumes I have placed before you today. As the record indicates, the Commission made an effort to review and comment on virtually every aspect of our nation's agricultural trade. I will not enumerate its many recommendations, except to say that they involve three basic considerations: (1) action to counter unfair trade competition; (2) better use of resources of government, including food aid and foreign assistance, to develop expanded demand for U.S. agriculture commodities and products; (3) improved internal coordination of current U.S. government international and domestic policy and programs affecting agricultural trade. All three of these considerations are of obvious concern to our nation's agriculture industry. In pursuing its recommendations, the Commission worked closely with a broad cross section of agriculture; and, of course, profited greatly from the participation of several of the members of your committee, including Senators Dole, Lugar, Helms and Zorinsky. A copy of the Commission's Executive Summary is attached hereto. With that, allow me to turn to the matters under more direct consideration today.

ACTION TO COUNTER UNFAIR FOREIGN TRADE COMPETITION

For at least one decade—and in the case of some commodities, even longer—U.S. agriculture has sought relief from the effects on its markets of unfair foreign trade practices. Many things have changed in that time. U.S. agriculture has seen both boom and bust. However, one factor has always been constant, if not on the rise. Today, no less than in the past, American agriculture is under direct assault by foreign governments employing aggressive and mandatory trade practices. America's future in world markets for agricultural commodities and products will always be uncertain, so long as our competitors insist on placing their interests ahead of that of the world economic order in general.

The Commission shares with a majority of those engaged in agriculture the belief that the U.S. government should take a far stronger position on matters of trade. To begin, it has recommended the aggressive use of resources and programs of the federal government to combat unfair trade, linked to an expedited Section 301 process. Past negotiations with offending countries have evidently failed to significantly improve the climate facing U.S. agriculture in world markets. More direct action is necessary to show U.S. resolve. While there may be legitimate concern about foreign retaliation against a strong U.S. policy, the Commission believes that direct action can have a salutary affect on our competition, forcing them to contemplate changes

in their policies they would otherwise be unlikely to consider, particularly in the context of the developing GATT round of negotiations.

American agriculture has a vital stake in the outcome of the new GATT round. It is important, therefore, that U.S. negotiators press for a thoroughgoing reform of GATT rules and processes to ensure that the incidence of unfair trade can be placed under better control. The Commission has a host of ideas for such reform: it recommends a clarification of criteria relating to subsidies; an expedited dispute settlement mechanism involving changes in GATT procedures and personnel; and the extension of GATT to cover state trading activities which have been so prejudicial to U.S. agriculture. The Commission believes that Congress should explicitly cite such areas of possible reform in its instruction to U.S. negotiators in this year's trade bill. In this way, Congress can assure a broad campaign against the many abuses which currently plague our export sector and establish a broad record of U.S. intent, which attention to only a few issues or lack of legislative history does not allow. The Commission urges the Congress to take great care in the drafting of such instructions, while it realizes that such activity is probably outside the jurisdiction of this Committee.

BETTER MARKET DEVELOPMENT POLICY

Of course, action against unfair practices will not alone eliminate the many problems U.S. agriculture faces in today's international market. The U.S. government must at a minimum maintain, but preferably expand, current programs designed to build-in future worldwide demand for U.S. agricultural commodities and products. The Commission has recommended future funding of such programs be set at levels no less than that contained in the 1985 Farm Act. It believes there should be a greater emphasis placed on value-added exports and developing nation markets in the future. Action of this sort will inevitably require some modification in current policy. For one thing, foreign assistance programs of the U.S. government need to be better geared to the achievement of direct agricultural foreign market development. Insufficient attention is presently accorded this objective in food aid and technical assistance programs. Furthermore, the Commission was tremendously disturbed by reports of practices of U.S. foreign assistance agencies which clearly were prejudicial to U.S. agricultural interests. A thoroughgoing market development strategy should be part of this year's trade bill, and greater resources provided to such programs, including the use of surplus commodities and products where practicable.

BETTER COORDINATION OF AGRICULTURAL TRADE POLICY

While the Commission believes strongly that the first two objectives of fairer trade and market development must be met, if the U.S. is to maintain a leadership role in agricultural trade, it is concerned that progress in this area will inevitably be eroded in the absence of reform of our own internal government decision making process affecting agricultural trade. Recent history is replete with examples of U.S. policy that has emerged from the inter-agency process in stark conflict with U.S. agricultural interests. Agriculture has not been accorded sufficient weight in the highest councils of government. To rectify this, the Commission has proposed sweeping changes in the manner in which current trade policy is developed, according the Secretary of Agriculture greater leadership in matters of trade. This reorganization proposal has received substantial attention. It has been criticized. However, the Commission feels strongly that there must be some effort to reform the current process. Simple exhortations calling for greater cooperation between agencies alone cannot solve this problem. The system of decision making must be redesigned to ensure that agriculture is elevated as a factor in the entire process.

The system must also be made more accountable to Congress and to the agricultural community in matters of trade policy. To achieve this, the Commission recommends that USDA be required to annually prepare Long Term Agricultural Trade Strategy reports for review by the Congress.

Agricultural trade policy, as it currently emerges from the inter-agency process, is shortsighted and ad hoc. Greater long term planning capabilities must be built into the system. The Commission's recommendation in this regard ensures both greater consistency and accountability in matters of agricultural trade policy. While the proposal can be dismissed from the agency perspective as simply yet another reporting requirement, its utility both to Congress and the agricultural community could be great. Congress and the agricultural community need to know what the long term objectives of U.S. trade policies are; what programs and resources are to be used; where emphasis will be placed; where markets will be sought. USDA should perform this service. Current information is insufficient. Bureaucrats have an aver-

sion to reporting requirements of any kind. However, the Commission believes that if USDA reported more, it would have to explain less.

CONCLUSION

I have briefly summarized some of the major recommendations of the Commission. Many more detailed proposals are contained in the volumes before you. Some are contained in H.R. 3 and in other legislative vehicles in the House and Senate. The members of the Commission were proud to serve the Congress in preparing its Report. It now urges the Congress to carefully consider its many ideas, as you prepare to engage in the process of developing omnibus trade legislation. That process begins here. In behalf of the Commission, I again thank you for the opportunity to place these views before you.

[Executive Summary of the report to the President and Congress of the United States of America, dated July 1, 1966, follows:]

EXECUTIVE SUMMARY OF THE REPORT TO THE PRESIDENT AND CONGRESS OF THE UNITED STATES OF AMERICA

Concluding Recommendations of the NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY

Submitted this day, July 1, 1986

The National Commission on Agricultural Trade and Export Policy hereby reports to the President and the Congress of the United States of America that, pursuant to Public Law 98-412, the Agricultural Trade and Export Policy Commission Act, enacted by the Congress and signed into law by the President of the United States on August 30, 1984, the Commission has, since November 30, 1984, had under consideration "the agriculture related trade and export policies, programs, and practices of the United States and the international and domestic factors affecting such policies, programs and practices, including the inter-governmental activities of the United States that affect the formulation of policies," as required by law. The Commission now concludes its deliberations with the following recommendations.

The Importance of Agricultural Trade to the Nation

United States agricultural exports and trade are vital factors in the well-being of our nation's economic system. Employment for one-fifth of our nation's work force is linked to our ability to maximize opportunities arising in the domestic and world market for basic agricultural commodities and value-added products.

United States agriculture has suffered serious and substantial setbacks in recent years, in large part the consequence of declining export sales. In addition, our domestic industries – both agricultural and manufacturing – face an ever-deepening crisis that results from new competitive pressures, many of which find their source in unfair import practices.

A variety of factors has contributed to the recent decline in U.S. agricultural competitiveness. Only some of these factors, such as fluctuations in exchange rate values and levels of worldwide economic growth, can be said, even remotely, to arise from a free play of world economic forces. More often, the outcome of competition in world markets results from the direct actions of government. U.S. domestic policies, both agricultural and nonagricultural, have had an important inhibitory impact on our nation's competitive position. Unfair trade practices of other nations similarly lessen our opportunities in our own market and in markets overseas.

Reform of domestic policies must take place in a political milieu. Such policies are subject to conflicting agendas, loyalties, and jurisdictional privilege. Change is always very difficult to achieve.

The same situation is true for reform of international practices and policies. In an increasingly competitive environment, efforts to overturn the unfair trade practices of other sovereign nations become greatly more difficult. In neither case is there room for resignation. The stakes are simply too high.

America's survival as a world leader in international trade is in question. It is time for our nation to hold the line. Every possible action must be taken to eliminate the unfair trade practices of other countries that undercut our position in world trade. In addition, we must take the necessary steps to ensure that the policies of our own government do not result in a decline in our competitiveness. Our response to the problems which currently affect U.S. agriculture must mirror the economic importance to the nation of maintaining the strongest possible position in world markets.

These are critical times for American agriculture. Agriculture stands at a crossroads of opportunity or crisis.

There are practical solutions to even some of the most intractable problems facing U.S. agriculture in world trade. As a first step, we should resolve to achieve the goal of recapturing the total world market share of U.S. agricultural exports, by commodity, achieved during the last period of major recent growth of such exports.

Getting at other solutions will demand equally strong and united commitments on the part of the nation's agricultural industry – a commitment to competitiveness, a commitment to a healthy agriculture, and a commitment to our nation's leadership in world agricultural trade. **Government and industry must chart a common purpose in directing our nation's trade future. Together, with the tools recommended by the Commission, that future can be one of substantial promise.**

Commission Deliberations

In preparing its final recommendations, the Commission has been guided by two basic principles: (1) wariness of actions that would result in additional federal budgetary expenditures; and (2) willingness to consider any and all policy options that hold promise of improving trade circumstances affecting agriculture. The Commission has, throughout its deliberations, operated as a Committee of the Whole. It has conscientiously striven to find consensus positions uniting the diverse elements of the nation's agricultural industry, as they are broadly represented by the Members of the Commission.

The Commission has actively sought the

participation of all people, organizations, and companies with direct interests in matters of agricultural trade. It has met throughout the country, and in all regions of the country, to assure a balance of regional interests in matters of trade. It has consistently honored its original commitment to bipartisanship in matters of a political nature. Consequently, the recommendations which follow should enjoy the overwhelming support of the entire agricultural industry of the nation.

SUMMARY RECOMMENDATIONS

The Commission summarily recommends that in the design and conduct of agricultural trade and export policy, the United States government be guided by the need to meet the following objectives, which are of equal importance and are here listed without regard to order of priority:

1. AGGRESSIVE ACTION TO MEET AND COUNTERACT THE EFFECTS OF UNFAIR FOREIGN TRADE PRACTICES
2. USE OF ALL EXISTING TOOLS TO EXPAND MARKETS FOR U.S. AGRICULTURAL COMMODITIES AND PRODUCTS
3. IMPROVED MANAGEMENT OF U.S. INTERNATIONAL AND DOMESTIC ECONOMIC POLICIES WHICH AFFECT AGRICULTURAL TRADE INTERESTS
4. ADDITIONAL EMPHASIS ON VALUE-ADDED TRADE
5. REORIENTATION OF FOOD AID AND ECONOMIC ASSISTANCE TO SERVE LONG- TERM MARKET DEVELOPMENT OBJECTIVES, WITH SUBSTANTIAL RELIANCE ON POLICIES DESIGNED TO PROMOTE PRIVATE-SECTOR AND FREE MARKET ORIENTED GROWTH IN DEVELOPING COUNTRIES
6. TARGETING OF MARKET GROWTH POTENTIAL IN THIRD WORLD COUNTRIES
7. LESSENING OF FOREIGN POLICY CONSTRAINTS TO ECONOMIC GROWTH THROUGH TRADE
8. APPROPRIATE ATTENTION TO THE MAINTENANCE OF POLICIES THAT SAFEGUARD U.S. AGRICULTURAL COMPETITIVENESS
9. STRENGTHENING OF AGRICULTURAL INTERESTS AND STREAMLINING OF DECISION-MAKING IN THE AGRICULTURAL TRADE POLICY PROCESS TO PROVIDE A MORE EQUITABLE AND EXPEDITIOUS RESPONSE TO AGRICULTURAL TRADE NEEDS

The Commission further recommends that the agricultural industry of the United States continue to seek consensus in matters of trade policy, to ensure the proper evolution of pro-export and pro-trade government policies in domestic and international matters.

To achieve such objectives, the Commission recommends policies and programs as follows:

AGGRESSIVELY MEET & COUNTERACT UNFAIR FOREIGN TRADE PRACTICES

American agriculture is currently under unprecedented assault by foreign governments employing aggressive and unfair trade practices. The United States government must take a far stronger position on matters of trade. Retaliatory capabilities of the United States government should be enhanced, and all effective means employed to counter the disruptive effect of foreign export subsidies, nontariff and tariff trade barriers, and unfair import competition. Management of currently authorized export enhancement and import protection programs should be improved to safeguard U.S. jobs and enhance long-term U.S. opportunities in world markets.

Progress toward the goal of fair world trade has been substantially eroded in recent years as a consequence of worldwide escalation of unfair trade practices.

In many instances, and for most commodities and products, there is an absence of free markets in world agriculture. Policies of government, rather than market forces, increasingly dictate the terms and conditions under which competition takes place. Trade barriers beget trade barriers. Unfair import competition begets

protectionism. There are always many more losers than winners in a trade war.

Avoidance of trade disputes requires that international rules governing agricultural trade be updated and clarified. Established procedures for policing violations of such rules need strengthening and streamlining. International cooperation is urgently required to

- Stem the tide of protectionist sentiment at home and abroad;
- Open markets for basic and value-added agricultural commodities oducts;
- Limit import restrictions, including arbitrary and capricious quality and health regulations that represent nontariff trade barriers;
- Limit the use of export subsidies and other predatory export trade practices; and
- Improve GATT processes and procedures to provide for stricter discipline and enforceability.

The Commission recommends:

1. **Automatic retaliation under Section 301 of the Trade Act of 1974 in the event of unsatisfactory settlement of cases subject to petition under Section 301.**
2. **Full utilization of all resources and programs of the federal government designed to combat unfair export competition and foreign trade barriers.**
3. **The President be authorized to enter into a new round of bilateral and multilateral negotiations to improve conditions affecting U.S. agricultural trade.**
4. **GATT be substantially reformed to provide for a clarification of GATT rules, expeditious response to violations of such rules, and stricter enforceability of GATT findings.**
5. **The United States retain appropriate safeguards and retaliatory capabilities to enable it to aggressively pursue trade reform and protect domestic industries damaged by unfair import competition.**

Retaliation Under Section 301

Retaliatory powers of the U.S. government should be enhanced to enable industries to obtain relief under Section 301 and to stimulate greater cooperation towards dispute settlement within the GATT framework. **The U.S. Trade Representative (USTR) should be required to take retaliatory steps to counter the economic impact of unfair trade practices within six months of the filing of Section 301 petition,** except upon (a) determination by USTR that action with respect to the petition is unwarranted; (b) determination by appropriate and binding GATT mechanisms that the U.S. position is unsub-stantiated; or (c) agreement by the offending country to eliminate such practice. Such an expedited timetable is feasible particularly if reform of GATT is achieved, as elsewhere recommended by the Commission.

USTR should be required to self-initiate Section 301 cases upon evidence of unfair trade practices and without petition of affected domestic industries. Enhanced unfair trade monitoring capabilities should be provided to the U S Department of Agriculture to ensure that all unfair trade practices and export subsidies are subject to retaliation under Section 301.

Utilization of Government Programs

Unfair export practices of other nations should be directly countered using all available authority, including export payment in kind. In more extreme cases, variable import restrictions and, preferably, adjustments in U.S. export restitution policy may be required to reward nations cooperating in efforts to lower trade barriers and to take action against nations which continue to employ predatory or unfair trade practices.

Assistance under such programs should be provided to all commodities and products that face competition by subsidized foreign exports, with priority consideration given to those commodities and products facing stiffest unfair competition.

The United States government should di-

rectly retaliate against the use by foreign governments of unfair and non-tariff trade barriers, including arbitrary and capricious health and sanitary restrictions. Consideration should be given to the application of temporary import surcharges on products imported into the United States from countries employing such practices, to stimulate greater progress towards the elimination of such practices.

Countervailing and antidumping measures initiated in respect to agricultural and agriculturally-related products entering the United States should be enforced on a consistent basis. **The United States government response to unfair import competition should be no less consistent than its response to unfair export practices and foreign market barriers.**

Administrative protection of domestic industries under the 1979 Trade Act and Section 22 should be consistently enforced. The issue of agricultural producer standing before the International Trade Commission in countervailing duty and antidumping cases should be further explored and clarified. Consideration should be given to improvement of procedures employed by the Department of Commerce in antidumping cases, to prevent subsidies from lowering dumping margins. Customs rulings (including private letter rulings) should be published in the Federal Register thirty days prior to implementation, to ensure that domestic producers are knowledgeable of such rulings, and have the opportunity to protect their interests prior to the effect of those rulings being implemented.

Trade Negotiations

Legislation should be enacted to establish explicit and binding requirements to govern objectives of U.S. representatives to ongoing bilateral negotiations and general negotiations to reform the GATT. At a minimum, U.S. representatives should be bound to negotiate the following:

(a) Elimination or substantial reduction of constraints to fair and open trade in basic and value-added agricultural commodities, to include:

(i) tariffs;

(ii) quantity limitations;

(iii) nontariff trade barriers; and

(iv) predatory and unfair export practices.

The Commission is cognizant that allowance for, or modifications in, U.S. and foreign domestic agricultural policies must be taken into account in efforts to achieve the above objectives.

In relation to tariff reductions, the Commission recommends that U.S. representatives be authorized to undertake agreements to reduce tariff barriers by at least 50 percent, across the board and worldwide.

(b) Expansion of GATT applicability to include services, intellectual property, and other aspects of trade not currently addressed by GATT, particularly as they pertain to agricultural trade.

(c) Expansion of GATT applicability to state trading activities.

(d) Expedited dispute arbitration and settlement mechanisms within the framework of GATT.

(e) Achievement of tighter GATT enforcement powers, and clarification of criteria relating to unfair practices contained in the Subsidies and Countervailing Duties Code.

(f) Achievement of internationally approved and recognized scientific and technical standards governing quality, health, and quarantine standards.

GATT Reform

The following reforms should be undertaken in respect to the GATT:

(a) Achievement of tighter GATT enforcement powers.

The enforceability of GATT rulings is undermined by the consensus nature of GATT decision-making, the veto power of signatories, and the absence of binding requirements on signatories in the event of a finding of unfair export subsidization. The rule of unanimous consent should be eliminated. The current GATT process makes it too easy for GATT violators to sidestep their treaty obligations. The process should be undergirded by automatic and admis-

sible retaliatory actions that are binding on all GATT signatories.

(b) Clarification of criteria relating to unfair trade practices contained in the Subsidies and Countervailing Duties Code and Article XVI of GATT.

Current criteria contained in the Subsidies Code governing GATT definition of export subsidies need greater clarification. The Subsidies Code was intended to refine the definition of admissible and inadmissible trade practices referred to in Articles VI, XVI and XIII of the GATT. In practice, however, the Code provides cover and lends an air of legitimacy to trade practices that are clearly in violation of fair trade precepts.

Export subsidies applied to primary products should face the same restrictions as are currently applied to subsidies on non- primary products. Every effort should be made to provide for specific prohibition of such subsidies regardless of current criteria, which allow such practices in the event that their use does not result in exports above an "equitable share" of world markets.

Consideration should be given to amendment of GATT to allow the imposition of countervailing duties on subsidized imports without a finding of injury to a domestic industry or at a lower standard of injury than the present "material injury" standard.

(c) Extension of GATT applicability to state trading activities.

State trading activities are common in world agricultural trade, and yet issues arising from the incidence of unfair state trading are not addressed by GATT. State selling agencies engage in export subsidy and dumping activities and state importing agencies engage in preferential, "closed door" purchasing; however, it is currently virtually impossible to determine the extent of their involvement. GATT rules are needed to govern the activities of state trading organizations to include:

(i) Provision for greater transparency on exporter and importer sales transactions, as to prices, credit terms, or other transactions by state exporting and importing organizations;

(ii) Tightening of state practices in regard to export sales at prices different from internal sales prices, and internal sales prices unrelated to world prices; and

(iii) Open bidding for all imports.

Such efforts should include addressing practices of non-market economies that are currently not signatories of GATT.

(d) Improved and expedited dispute settlement within GATT.

GATT dispute mechanisms are currently far too cumbersome and slow. By contrast, determinations of the International Trade Commission and subsequent Executive action in countervailing and antidumping cases are subject to a much more stringent and legally binding time constraint.

The Commission believes that time constraints and procedures under Section 301 of the Trade Act of 1974 should be no less binding than legislatively mandated requirements under Section 201 - 203 of the 1974 Act, and Section 337 and Title VII of the 1930 Tariff Act.

Consideration should be given to the following improvements in the GATT dispute settlement process:

(i) Allow the Director-General of GATT to intervene more effec- tively to bring disputing parties into mediation and arbitration;

(ii) Bind disputing parties to voluntarily agree in advance to submit their case to a neutral arbitration panel and to abide by the panel's decision;

(iii) Designate pre-selected, nongovernmental individuals, rather than government representatives, to serve on "expert panels";

(iv) Establish a reasonable timetable for consideration and action by experts; and provide uniform guidelines for information to be contained in such reports;

(v) Provide for automatic publication of all panel reports. The adoption of or alteration of panel recommendations should be separated from the panel report;

(vi) Take effective action to counteract the impact of currency valuation arising from factors other than those determined by market

forces. Consideration should be given to the admissibility under GATT of countervailing duties, or other safeguards, on imports benefitting from unjustified competitive advantage resulting from the manipulation by governments of such values without regard to market indices, or agreements entered into between countries in respect to such currency valuation.

(e) Appropriate safeguards and retaliatory capabilities to ensure greater cooperation in trade matters.

The United States government and U.S. negotiators in international forums should have appropriate ammunition to aggressively pursue international cooperation in trade matters. Great care should be taken in the selection and preparation of U.S. negotiators. In addition, as recommended elsewhere, to encourage timely action on Section 301 cases the U.S. Trade Representative should be required to take retaliatory action against nations utilizing unfair trade practices within six months of the filing of a 301 petition, except if (a) he determines within such time that action in respect to the 301 petition is unwarranted, (b) determination is made by appropriate and binding GATT mech-anisms that the U.S. position is unsubstantiated, or (c) agreement is entered into with the offending nation to eliminate such practices.

Appropriate attention should be given to the maintenance of programs designed to protect U.S. industries from the effect of unfair import competition.

USE OF ALL EXISTING TOOLS TO EXPAND COMMERCIAL MARKETS FOR U.S. AGRICULTURAL COMMODITIES AND VALUE-ADDED PRODUCTS

Greater attention should be given to the need to maintain or expand the budgetary resources of the federal government which serve export credit and other programs designed to enhance U.S. competitiveness in world markets. Management of such programs should allow for nondiscriminatory treatment of traditional markets for U.S. agricultural commodities and products. Additionality should be achieved through substantial reliance on long-term market development strategies. Resources for export and market development-related programs of the United States Department of Agriculture (USDA), including the Foreign Agricultural Service (FAS) overseas market development program, should be maintained at levels that provide for expanded activity by USDA in matters of trade.

The Commission recommends:

1. **Export credit and enhancement programs contained in the 1985 Farm Act be funded at levels not less than those specified in the Act.**
2. **Management of such programs be improved to allow for a longer-term orientation, with appropriate attention given to the need to service traditional customers of U.S. agricultural commodities and products.**
3. **Programs of the U.S. Department of Agriculture, including the Foreign Agricultural Service and the overseas market development program of the FAS, be funded at levels not less than those authorized and appropriated for such purposes in Fiscal Year 1986, or at a level consistent with the enhanced role of the Department of Agriculture, as recommended in other parts of this report.**
4. **New authority be granted to the Secretary of Agriculture to carry out additional responsibilities in respect to market development.**

Export Credit and Enhancement

Export credit and enhancement programs contained in the 1985 Farm Act should be funded at levels no less than those specified in the Act. Full use should be given to direct and guaranteed credit, including short-term and intermediate credit, blended credit, interest buy-down and export payment in kind.

The Commodity Credit Corporation (CCC) Export Credit Revolving Fund should be fully funded. Consideration should be given to the use of Section 32 funds for purposes of export enhancement, as originally intended by Congress.

Improved Management

Export credits and other enhancements should be designed with the objective of competitiveness constantly in mind. Credit policies must be flexible, and fit the needs of the importer, exporter or commodity or product served by the program. Export credit and enhancement programs should be developed on a case-by- case basis.

Longer-term orientation should be given to export credits. Repayment terms should be flexible. Consideration should be given to partial repayment of loans in foreign currencies and incentives for early repayment, such as interest rate reductions and rebates.

In addition, consideration should be given to the possibility of authorizing the Secretary of Agriculture to offer a program of foreign exchange risk protection to Commodity Credit Corporation export credit recipients. The proposal would require the Commodity Credit Corporation to assume all or part of the risk to CCC export credit recipient nations associated with a rise in the value of the dollar. At the time a nation is extended CCC export credits or credit guarantees, USDA would establish a maximum dollar-value repayment rate relative to some index of foreign currencies such as the Trade Weighted Index or the World Bank's Standard Drawing Rights (SDR). If the dollar rose in value over the term of the loan or loan guarantee repayment period, the borrowing nation would only have to repay based on the dollar's value at the time the loan was extended. The Commodity Credit Corporation would assume the cost associated with the rise in the value of the dollar.

Export-Payments In Kind (PIK), if used for any other purpose than for retaliation to counter unfair trade practices, should be offered across the board without prejudice to traditional customers of United States agricultural commodities and products.

The United States should seek to eliminate the use of mixed credits and tied aid by other countries, or directly counter such practices in the absence of progress in this area.

Other Funding

Funding for international programs of the U.S. Department of Agriculture, including appropriations for the Foreign Agricultural Service, should be maintained at levels no less than those appropriated in Fiscal Year 1986, or at a level consistent with the expanded role of the Department of Agriculture, as recommended elsewhere in the Report.

The FAS overseas market development program should be protected from budget reductions contained in the President's Budget for Fiscal Year 1987. Spending in this area bears a cost-to-benefit ratio of 80 to 1. The advantages of reductions in such spending are clearly outweighed by the benefits of maintaining current levels of such funding.

New Authority

The Secretary of Agriculture should be required to undertake the following new responsibilities in regard to overseas market development:

(a) The Secretary should be authorized to make commodities owned by the Commodity Credit Corporation available to cooperator organizations, which shall be used by such cooperators in demonstration projects designed to expand markets for U.S. commodities and products.

(b) The Secretary should be authorized to supplement commodities provided under P.L. 480 Title I agreements with an additional amount of bonus CCC-owned commodities, not to exceed 10 percent of the volume of commodities provided under the Title I, which shall be sold for foreign currencies with proceeds used by cooperator organizations to cover local market development costs.

(c) The Secretary should assign an agricultural marketing specialist or agricultural trade officer in each overseas post that offers short or long term market potential and is not now covered by an Agricultural Trade Office, agricultural trade officer, or agricultural marketing specialist.

(d) The Secretary should expand and strengthen work with State Departments of Agriculture to better focus on states' work with companies in support of export efforts, including the stationing of marketing specialists in states or

regions as part of the normal rotation of these specialists between Washington, DC, and overseas locations.

(e) The Secretary should be authorized to expand the number of agricultural counselors, attaches, assistant attaches, and other diplomatic representatives of USDA posted overseas, to provide enhanced trade policy and international economic information consistent with USDA's expanded trade role as recommended in this report.

(f) The Secretary should be authorized to contract with individuals for personal services abroad without regard to any provision of law regulating the making, performance, amendment, or modification of contracts. Such individuals should not be regarded as employees of the United States government under any law including but not limited to the laws administered by the Office of Personnel Management.

IMPROVED MANAGEMENT OF U.S. INTERNATIONAL AND DOMESTIC ECONOMIC POLICY WHICH AFFECT AGRICULTURAL TRADE INTERESTS

Fiscal and monetary policies of the federal government should reflect a greater priority on achievement of national economic benefits through expanded trade. Past policies and practices resulted in an unprecedented appreciation in the value of the U.S. dollar, which, on a continuing basis, threatens to seriously undercut U.S. agricultural competitiveness. In the future, such policies should be crafted with due consideration of their impact on the domestic and international environment in which trade must take place.

Fiscal policy should continue to reflect the need to reduce the federal deficit. Domestic and international monetary policy should give greater emphasis to the need to stabilize exchange rates and establish a value for the U.S. dollar that assures efficient U.S. industries the ability to compete in international markets. Tax policy should be designed with an eye to maintaining a favorable economic climate for investment in technologies and enterprises that enhance U.S. competitiveness. Improved overall synchronization of such policies is required to ensure a consistent and orderly international trade environment.

The Commission recommends:

1. **Efforts continue to reduce the size of the federal deficit.**
2. **Policies continue to emphasize stabilization of wide fluctuation of exchange rates and establishment of a value of the U.S. dollar that complements U.S. competitiveness.**
3. **Tax incentives be provided to stimulate additional investment in research and basic infrastructure that enhances U.S. competitiveness.**
4. **Additional efforts be undertaken to coordinate fiscal and monetary policies, including tax policies, to provide a favorable economic climate for international trade.**

Budget Reduction

Efforts to reduce the federal deficit should provide sufficient scope for the maintenance of necessary federal support of expanded U.S. agricultural exports and producer income.

Exchange Rate Policy

Efforts to stabilize fluctuations in exchange rates should be by negotiation with other major currency nations and by appropriate domestic monetary policy.

The Commission commends the Administration for its recent efforts to negotiate a regime to stabilize exchange rate fluctuations and to provide for reform of the international monetary system. The focus of such negotiations should be broader than that of the recent G-7 country negotiations, and should involve participation by a wider group of major currency countries. Substantial progress in such matters must be in evidence, prior to convening general negotiations on trade matters.

U.S. representatives to such negotiations should be attentive to the achievement of the following objectives:

(a) Stabilization of U.S. dollar value at levels

in relation to the currencies of other major trading nations that assure efficient U.S. industries the ability to compete in international markets.

(b) Establishment of an ongoing mechanism to correct significant swings in exchange rate values. **Due consideration should be given to renewed U.S. participation in an institutional arrangement with other major currency countries that would facilitate ongoing and orderly U.S. and foreign government monetary intervention to correct exchange rate values, subject to triggers as agreed upon.**

(c) Agreement by major industrial nations to seek confluence of domestic economic policies, with an emphasis on expanded levels of non-inflationary private sector growth, liberalized government policy towards the private sector, and liberalized policy with respect to market access and trade.

Tax Policy

Proposals to reform current tax law should give appropriate emphasis to the maintenance of necessary incentives to stimulate additional domestic investment in research and basic infrastructure that enhances U.S. competitiveness. **Greater attention should be given to the need to increase domestic gross savings.** Additional domestic savings can reduce the nation's dependence upon foreign capital to fund investment, and, as a corollary effect, lessen the impact of such foreign capital inflows as a factor in dollar valuation. Consequently, consideration of incentives to increase domestic personal savings is recommended.

Policy Coordination

To provide greater accountability of the impact of U.S. monetary policy on trade and to ensure greater predictability of government policy in respect to exchange rates, legislation should be enacted to require the President and the Federal Reserve Board to take greater account of exchange rate influences on trade in determining appropriate fiscal and monetary policy that directly or indirectly result in changes in the value of the U.S. dollar.

The President should be required to include in his annual Economic Report his forecast of U.S. dollar valuation in the year covered by the Report, to include a statement as to the following:

(i)The impact on trade of such dollar valuation;

(ii)The need for correction in such dollar valuation; and

(iii) The President's recommendations regarding U.S. and international action in relation to such dollar valuation.

The Federal Reserve Board should be required to report to Congress its forecast of the impact on U.S. trade of policy undertaken by the Federal Reserve Board in any meeting of the Federal Open Market Committee, within 30 days following the meeting of such Committee.

Appropriate attention should be given by the President to the appointment of forceful U.S. agricultural trade spokesmen who shall participate in high-level deliberations of the Administration in respect to the design and implementation of fiscal and monetary policy.

ADDITIONAL EMPHASIS ON VALUE-ADDED AND HIGH-VALUE AGRICULTURAL EXPORTS

The rate of growth of value-added exports is currently fast outstripping the rate of growth of raw commodity exports, as a percentage of total worldwide agricultural trade. Many nations, in both the industrial and developing worlds, have been quick to recognize the tremendous economic benefit to their societies of expanded levels of value-added and high-value product exports. U.S. exports of these products accounted for roughly one-third of total U.S. agricultural exports in recent years. By contrast, the percentage of value-added and high-value exports in total agricultural exports comprised 74 percent of French exports, 40 percent of Australian exports, and 51 percent of Brazilian exports in the same period.

The list of value-added products traded by our leading agricultural competitors – meats, dairy products, cereal preparations, refined sugar, canned fruits, vegetable oils and oilseed

preparations, to name a few – reads like a catalogue of issues of outstanding dispute between these countries and the United States. In most cases, the value-added product exports of these nations benefit from some form of direct government assistance. As a consequence, the European Community is now the world's leader in value-added agricultural exports, and exports of such products are becoming steadily more important in other countries such as Brazil, Australia, Canada, and Argentina.

It is clear that the United States needs to do much more to promote the export of value-added and high-value products.

The Commission recommends:

1. **Congress declare it to be the policy of the United States to expand exports of agricultural value-added and high-value products toward the goal of achieving parity between such exports and raw commodity exports, with an assurance that the highest level possible of raw commodity exports be obtained.**

2. **Greater use be made of currently authorized export promotion programs of the federal government to expand exports of value-added and high-value agricultural products.**

3. **A new commodity division be established within the Foreign Agricultural Service (FAS) or other agency, as elsewhere recommended in this report, to support value-added products not now covered by cooperator agreements and that a cooperator organization be created to assist the marketing role of the division.**

Value-Added Export Promotion

The Commission commends the Department of Agriculture for its recent efforts to include a greater variety of value-added and high-value agricultural products in programs designed to expand U.S. agricultural exports. Many such products, including red meats and poultry, face significant competition in international markets as a result of unfair foreign trade practices. Quotas on U.S. meat exports to Japan, and the European Community Third Country Directive in respect to U.S. meat exports are examples of such practices. In addition, **the Department of Agriculture should continue its efforts to further promote sales of value- added and high-value products, including expanded efforts in regard to export sales of United States specialty crops and forestry products.**

The work of the value-added product division within the Foreign Agricultural Service, which is recommended for establishment by the Commission, should include market analysis for products in this category as well as market development. The cooperator organization, to support its work, should be broadly based and include export trading companies and export management companies dealing in food products, as well as manufacturers and distributors of individual brands and product lines.

REORIENTATION OF FOOD AID AND ECONOMIC ASSISTANCE TO SERVE LONG-TERM MARKET DEVELOPMENT OBJECTIVES

Food aid and foreign economic assistance programs of the United States government have a potential to better serve the objective of long-term market development for U.S. agricultural commodities and products. In recent years, however, this potential has been undercut by the conflicting priorities of the different federal agencies empowered to plan and administer food aid and foreign economic assistance programs and budgets.

Market development applications of these programs should have much greater emphasis in foreign economic policy. The food aid component of total U.S. economic assistance should be substantially increased, in keeping with our nation's preeminent position as the world's agricultural leader. Greater leadership in agriculturally-related foreign economic assistance should be given to the Secretary of Agriculture to ensure such programs imaginatively and effectively serve the long-term objective of foreign market development.

Stronger safeguards are necessary to ensure that foreign economic assistance programs of other agencies of government do not

directly counter the nation's agricultural trade interest, through development of competing foreign agricultural trade capabilities in like products. Approval of foreign agricultural research and technical assistance projects currently undertaken by colleges, universities, and other organizations within the United States and abroad which are financed using federal funds should be assigned to the Secretary of Agriculture.

The Commission recommends:

1. **Explicit requirements be put into effect to ensure that food aid and foreign economic assistance programs serve U.S. agricultural market development interests.**
2. **A "Food First" policy substantially reliant on food aid in lieu of cash-basis assistance be promulgated as the focus of U.S. economic assistance to the poorest nations of the world.**
3. **The Secretary of Agriculture be assigned a greater leadership role in food aid and foreign agricultural economic assistance matters.**
4. **Full use be given to all food aid programs currently authorized by law.**
5. **Safeguards be put in place to ensure that U.S. foreign agricultural economic assistance programs do not run counter to U.S. agricultural trade interests.**
6. **Foreign agricultural research and technical economic assistance projects undertaken by colleges, universities, and other organizations in the United States and abroad, which are financed using federal funds, be made subject to approval by the Secretary of Agriculture.**

Market Development Requirements

The Congress and the President should establish it to be the policy of the United States government to better utilize food aid and foreign economic assistance programs of the U.S. government to promote the development of markets for U.S. agricultural commodities and value added products.

Agencies and nongovernmental entities administering food aid and agriculturally-related foreign economic assistance programs, other than direct feeding or emergency food aid, should be required to certify that such programs serve direct market development objectives for U.S. agricultural commodities and value-added products.

This provision should include reporting requirements in respect to Title I/III, P.L. 480, Section 416 and "Food for Progress," sales for local currency, and USAID technical and economic assistance programs and other such programs of the Federal government.

"Food First" Policy

The Congress and the President should establish it to be the policy of the United States to provide economic assistance to foreign nations in the form of "food first," to the extent such practice does not displace ongoing U.S. commercial sales. As a specific goal, Congress should call upon the Administration to restore the proportion of food aid in its foreign economic aid budget from the current level of 18 percent to one-third of the total of all such assistance, the same proportion of food aid resources as provided in the period 1968-1972. The Commission believes that a shift in resources of this nature would advance the overall objectives of U.S. foreign economic assistance effectively, without additional cost to the U.S. Treasury.

In the event Congress does not approve funding for food aid programs as recommended above, the Commission urges Congress to consider providing such increases in funding by direct appropriation.

USDA Leadership Role

Congress or the President should designate the U.S. Department of Agriculture to be the lead agency within the federal government in all matters of agriculturally-related foreign economic assistance. The extension of new authority in any matter of agriculturally-related foreign economic assistance to any agency of government other than the U.S. Department of Agriculture should be prohibited, except as provided for above, or upon agree-

ment by the Secretary of Agriculture.

All agencies of government that have programs or take actions that potentially or actually affect agriculturally-related foreign economic assistance should be required to report to the Secretary of Agriculture semiannually on the extent to which such programs or actions affect agriculturally-related foreign economic assistance, the extent to which such programs or actions contribute to expanded U.S. agricultural exports, and the extent to which such programs or actions are consistent with the goals, objectives, and program recommendations contained in the most recent President's Annual Long Term Agricultural Trade Strategy Report, as recommended elsewhere in this report.

Within 30 days of receiving such reports, the Secretary of Agriculture should be required to report to the Chairmen of the Senate Foreign Relations, Finance, and Agriculture Committees and the Chairmen of the House Foreign Affairs, Ways and Means, and Agriculture Committees his views and recommendations in regard to such information furnished by other agencies.

In addition, agencies administering such programs should be required to coordinate their actions with those of the Secretary of Agriculture and subject their relevant programs and actions to approval by the Secretary of Agriculture.

To enhance the USDA's leadership role in such matters, Congress or the President should establish within the U.S. Department of Agriculture an Office of Food Aid Policy. The Director of such office should serve under the leadership of the General Sales Manager; develop in coordination with the Director of the Office of Agricultural Trade Policy Planning and Evaluation, a position recommended for establishment by the Commission, a comprehensive and coordinated market development-oriented USDA food aid and foreign economic assistance strategy; monitor the compliance of programs and policies of other agencies and related entities to ensure that such programs and policies are consistent with market development objectives; and serve as the Secretary of Agriculture's principal staff representative in deliberations of the Staff working group, Development Coordination Committee Subcommittee on Food Aid.

Utilize Existing Programs

Congress should require an immediate expanded implementation of Section 1110 ("Food for Progress") and Section 1111 ("Sales for Foreign Currencies") of the 1985 Food Security Act. The Secretary of Agriculture should be assigned primary responsibility in the administration of these programs.

Consideration should be given to the programming of all commodities under P.L. 480.

Safeguards

Congress should establish it to be the sense of Congress that funds of the federal government be denied to international programs supported by the federal government that result in an expansion of trade of commodities and products that are directly competitive with U.S. agricultural commodity and product exports.

Foreign Agricultural Research and Technical Assistance

Agricultural research and technical assistance programs in support of agriculture overseas, such as those financed using funds of the U.S. Agency for International Development (USAID) and other agencies, including multilateral agencies to which the United States con-tributes, can, if properly managed, provide direct and indirect benefit to U.S. agriculture, through enhanced demand for U.S. farm products, growth in developing country income, and cooperative relationships between U.S. and foreign governments and development-oriented organizations and institutions. Too often, however, such programs are conceived, initiated, and executed without regard for their impact on U.S. agricultural interests.

The U.S. Agency for International Development and its client agencies and organizations, including U.S. and foreign colleges, universities, and other entities, should be subject to greater accountability in their conduct of foreign agricultural research and technical assistance. If Federal funds are used for such purposes, such organizations, agencies and institutions should be required to subject their programs to approval by the Secretary

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of Agriculture. USAID proposes to spend $709.9 million in support of such activities in Fiscal Year 1987. In recognition of the tremendous exposure which our nation's taxpayers face in respect to such programs, it is only appropriate that the Secretary of Agriculture have a prominent role in the programming and spending of such funds.

THIRD WORLD COUNTRIES SHOULD BE TARGETED WITH A COMPREHENSIVE AND COORDINATED PROGRAM DESIGNED TO PROMOTE THE GROWTH OF DEVELOPING COUNTRY MARKETS FOR U.S. AGRICULTURAL COMMODITIES AND VALUE-ADDED PRODUCTS

United States agricultural export promotion strategy should be more effectively targeted to achieve growth in markets in developing countries. Three-quarters of the world's population live in such countries. 90 percent of world population growth will occur in these countries in the next 14 years. These markets offer tremendous opportunity for U.S. agriculture, provided that existing, often unmet, demand can be translated into effective demand for agricultural commodities, products and services which the United States produces.

Congress recognized this important factor in the world trading environment in the 1985 Farm Act, and created within the Executive Office of the President the position of Special Assistant for Agricultural Trade and Food Aid Development. The provision establishing the Special Assistant to the President calls upon the executive branch to identify at least 15 growth markets for U.S. agricultural commodities and products, and requires the Special Assistant to coordinate the programs and actions of various agencies to promote development of such markets. The Commission endorses the broad fundamentals of strategy underlying this provision of the 1985 Farm Act. Preliminary investigations by the Commission indicate a wide variety of developing nations which may be suitable for such targeting.

The Commission recommends:

1. **The Secretary of Agriculture be required to coordinate, together with the Special Assistant to the President for Agricultural Trade and Food Aid Development, a pilot program of targeted third world country "growth market" development relying on a wide variety of currently existing federal programs dedicated to economic and agricultural development and market expansion.**
2. **The President appoint without delay a forceful agricultural representative to serve him as Special Assistant to the President.**
3. **The Congress and the President establish it to be policy of the United States to make better use of existing resources to aggressively and imaginatively develop new markets for U.S. agricultural commodities in Third World countries.**

Third World "Growth Markets"

The Commission releases at this time its preliminary findings on significant growth markets for U.S. commodities and products, which has been prepared by the Foreign Agricultural Service of the Department of Agriculture, under instruction by the Commission.

The pilot program recommended by the Commission should be a joint undertaking of the Secretary of Agriculture and the Special Assistant to the President, consistent with the expanded role of the Secretary in trade matters as called for in this report. The Special Assistant should seek to place his influence behind recommendations of this Commission involving better use of food aid and foreign economic assistance programs to serve market development objectives. The Secretary of Agriculture, acting through offices recommended for establishment in this report, should have principal responsibility for development of long-term strategies for market development, as contained in relevant provisions of the 1985 Farm Act.

Appropriate recognition should be given to the fact that economic growth in developing countries significantly depends upon the market

access the United States and other industrialized countries accord the commodities and products of such countries. To be successful, strategies in respect to such countries must facilitate trade in both directions.

GREATER CONSIDERATION SHOULD BE GIVEN TO THE NEEDS OF U.S. AGRICULTURE IN THE DESIGN AND EXECUTION OF UNITED STATES FOREIGN POLICY

Foreign policy objectives of the federal government often run counter to progress towards expanding trade in agricultural commodities and products. Firm safeguards are needed to ensure that U.S. foreign policy serves, rather than detracts from, the achievement of national economic benefits through trade.

Foreign policy embargoes applied to U.S. agricultural exports have undermined the United States' reputation as a reliable supplier of food and fiber. Foreign policy considerations have interfered with efforts to establish a more equitable international trading environment for U.S. agricultural commodities and products.

The Commission recommends

1. **The federal government guarantee, except in time of national emergency, an absolute freedom from embargoes on U.S. agricultural exports to any nation, and an assurance of sanctity of contract in respect to export sales suspended under extraordinary circumstances.**
2. **Consideration be given to proposals designed to lift trade embargoes in respect to cash-basis sales of U.S. agricultural commodities and products, as have been recommended by certain representatives of the United States agricultural community.**
3. **Consideration be given to a normalization of nonstrategic bilateral agricultural trade relations with nonmarket economy countries.**
4. **Congress and the Administration resist pressure to subjugate legitimate trade interests of the United States to facilitate or enhance U.S. foreign policy interests, or those of other nations.**

Freedom From Embargoes

Current authority contained in the Export Administration Act of 1985 and permanent authority established in the 1977 and 1981 Farm Acts provide substantial protection against the use of agricultural export embargoes, but they do not preclude their application under certain circumstances. In addition, current law provides little protection against the use of agricultural embargoes against small-country markets. Nor does it require the lifting of trade embargoes currently in effect.

Agricultural export embargoes have never been effective. It is not evident that such embargoes currently in effect are achieving the desired results, particularly since the commodities and products denied currently embargoed nations are freely available from other sources.

Attention has been given within the agricultural community to the possibility of cash-basis sales of U.S. agricultural commodities and value-added products to nations with which the United States has unilaterally severed trade relations, if such nations are able to purchase such commodities or products elsewhere in the world market. The Commission does not currently recommend that affected nations be enabled to import their products into the United States market. However, U.S. agricultural exporters should be authorized to ship U.S. agricultural commodities and products to such nations if such commodities and products are freely available elsewhere, in a manner the President determines to be consistent with the maintenance of United States national security.

Normalization of United States Trade Relations With Non-Market Economy Countries

The United States should actively seek renegotiation and extension of the U.S.-Soviet long-term grain trade agreement. Consideration should be given to a moratorium on Jackson-Vanik provisions of the 1974 Trade Act, subject to progress on the part of the Soviet Union in respect to emigration

policies. Consideration should be given to nondiscriminatory tariff treatment of products imported by the United States from countries not currently subject to most-favored nation status with which the United States presently enjoys a positive trade balance. Such consideration is in keeping with the need to maximize all avenues of trade in view of our current trade deficit problems. **The Commission urges the government of the Soviet Union, and other governments currently affected by U.S.- imposed trade restrictions, to take such actions as have been suggested by the United States government to improve general relations, and thereby, provide the basis for future expanded, nonstrategic bilateral trade with the United States.**

APPROPRIATE ATTENTION MUST BE GIVEN TO THE MAINTENANCE OF DOMESTIC POLICIES THAT SAFEGUARD OR ENHANCE U.S. COMPETITIVENESS IN WORLD MARKETS

Efforts to expand U.S. agricultural exports and maintain the competitiveness of U.S. agricultural commodities and products in domestic and international markets have suffered in recent years as a consequence of policies and practices of the federal government that directly and indirectly interfere with such efforts. Many such policies and practices result from an unevenness of fit between conflicting agendas of federal agencies, as has been addressed elsewhere in this report. In other instances, such policies and practices appear designed to in-hibit competitiveness, and thus directly contradict the clear intent of Congress and the Executive Branch in regard to the need for expansion of U.S. economic benefits through trade.

United States domestic agricultural price support and related programs should be designed with the following objectives in mind:

1. *Commitment to a long-term policy with sufficient flexibility to allow for adjustments to changing world economic conditions, but which provides for a reasonably stable and predictable atmosphere for planning purposes.*
2. *Commitment to policies and programs which will allow U.S. agricultural commodities and products to be competitively priced in overseas markets.*
3. *Commitment to provide the opportunity of profitability to U.S. agricultural producers in order to maintain the competitiveness of the U.S. farm and food system.*
4. *Commitment to preserve and protect our natural resources.*
5. *Commitment to continue strong support for agricultural research and education.*

Greater care must be taken to ensure that questions regarding the quality of U.S. agricultural exports are fully addressed by industry and government, with full assurance that such exports meet the tightest criteria possible consistent with the need to maintain quality in a competitive international trading environment.

Cargo preference laws relating to the shipment of government- directed sales of agricultural commodities and products should be subject to further review by Congress and the Administration. Such policy, if extended to include programs designed to enhance U.S. competitiveness, expands federal expense, with additional costs borne by the nation in terms of lost export sales. New solutions need to be found to address the problems of the U.S. maritime industry. The industry itself will not prosper if the net effect of such policies results in a decline in agricultural competitiveness.

The Commission recommends

1. **Congress and the Administration maintain the direction of policy in regard to domestic agricultural policy contained in the 1985 Farm Act, to the extent that such policy serves the long-term goal of U.S. competitiveness in domestic and world markets.**
2. **Congress and the Administration reassert the importance of long- term domestic policy that is pro-export and pro-trade.**
3. **Industry resolve to lay to rest, once and for all, questions of quality involving U.S. exports of agricultural com-**

modities and products, in advance of congressional action.

4. **Congress and the Administration reopen for review current cargo preference laws affecting U.S. agriculture, consistent with the objective to provide assistance to the U.S. maritime industry through means which do not involve exaction upon U.S. agriculture.**

United States Domestic Agricultural Policy

International price competitiveness is not inconsistent with the achievement of enhanced profitability and farm income in the domestic agricultural economy. Indeed, the Commission believes that a complementarity exists between domestic and export programs that can serve the goal of agricultural competitiveness and profitability. There is a direct relationship between domestic farm programs and U.S. agricultural competitiveness. Federal farm programs are a factor determining whether U.S. agriculture is competitive in world markets. Awareness of this fact – and a willingness to commit to flexibility in response to changing world economic conditions – improves the possibility that domestic programs serve long-term goals of competitiveness and profitability.

The Commission strongly endorses the direction of domestic agricultural policy contained in the 1985 Farm Act, and commends the Congress and President for their commitment to pro-export and pro-trade agricultural policy objectives. It urges the Congress to stay the course of policy contained in the Act.

Current difficulties facing the U.S. agricultural industry are clearly critical, and demand resolution. The Commission believes that the nation and the federal government have an important responsibility for maintaining an opportunity for profitability within agriculture, in keeping with the vital contribution of agriculture to the nation's economy. However, **Congress must resist pressures to achieve solutions to our nation's agricultural problems through resort to high-price support policies and autarkic measures designed to require adjustments in acreage and production to serve domestic demand solely.** Such policies would be ruinous for our agricultural industry. Reductions in trade and production of the magnitude posed by such policies would clearly undermine the maintenance of the nation's agricultural production and delivery service, with concomitant adverse effects to our nation's consumers, industrial users of such products, and related industries. These industries and our domestic consumer demand must be maintained if United States agriculture is to continue to play the role in our national economy it currently plays. The recommendations contained elsewhere in this report hold a promise of improvement in our nation's agricultural trade performance. In the meantime, **assistance to U.S. domestic producers of commodities produced for or significantly reliant upon exports should be through means other than those which undermine U.S. price competitiveness or our current ability to serve international demand for the commodities and products we produce.**

Quality Considerations

The Commission recognizes that quality is a vital factor in maintaining U.S. competitiveness. The United States should always strive to maintain representative standards of quality, because the existence of doubt in regard to quality poses as great a threat to U.S. competitiveness as quality problems themselves. Industry should quickly resolve quality issues and report to Congress and the U.S. Department of Agriculture on needed changes. In the meantime, **Congress should resist pressure for precipitous readjustments of policy, pending the outcome of investigations called for in the 1985 Farm Act, or those underway within the agricultural industry itself.**

Cargo Preference

The Commission strongly opposes the concept of cargo preference as currently applied to food aid programs and, potentially, to other programs designed to expand sales of U.S. products.

The Commission recognizes that other interests may be served by cargo preference, but has seen little evidence that the objectives of the program are being met. While the Commission

does not take issue with the need for maintaining a strong U.S. maritime industry, it does not believe that cargo preference applied to exports of U.S. farm products is the appropriate means to achieve this objective.

The Commission commends elements within the agricultural community for their recent efforts to negotiate some resolution of this issue. However, it does not believe that the compromise position contained in the 1985 Farm Act is workable or that it is in the interests of U.S. agriculture. **Congress and the Administration should reopen the issue of cargo preference for additional review, consistent with the objective to provide assistance to the U.S. maritime industry through means that do not involve exaction upon United States agriculture.**

The Commission believes that U.S. agriculture would lend its support to the maritime industry to strengthen the industry if cargo preference requirements on agricultural products were eliminated. However, cargo preference is not supported by the U.S. agricultural community. Cargo preference requirements inflate the cost of U.S. agricultural exports, reduce the volume of such exports and, in recent years, have precluded operation of a blended credit program designed to enhance U.S agricultural export sales. The method of financing the program should not be by appropriation to the U.S. Department of Agriculture. Appropriations to carry out the program should be provided by Congress directly to the Maritime Administration. The Commission encourages the U.S. maritime industry to cooperate with agricultural interests toward a goal of greater viability for both industries, as a first step, through exempting agricultural exports from existing cargo preference requirements.

CURRENT UNITED STATES AGRICULTURAL TRADE POLICY PROCESS SHOULD BE IMPROVED TO ALLOW FOR A STRENGTHENING OF AGRICULTURAL INTERESTS, CENTRALIZING OF DECISION-MAKING, AND MORE EXPEDITIOUS RESPONSE TO AGRICULTURAL TRADE NEEDS

The agricultural trade policy process is ineffectual, cumbersome, and slow. Quite often, the interests of agriculture are outweighed in the interagency and intercommittee process currently designated to coordinate the formulation and execution of national trade policy.

Agricultural interests need strengthened representation in the trade policy process. A greater leadership role should be provided to the U.S. Department of Agriculture in matters of agricultural trade and greater attention given to the designation within government of effective agricultural trade spokesmen.

Long-term agricultural trade policy objectives need to be developed, articulated, and made binding on the interagency process affecting agricultural trade.

The Commission recommends:

1. **A greater leadership role be given to the U.S. Department of Agriculture in matters of agricultural trade.**
2. **Greater attention be given to the designation within government of effective agricultural trade spokesmen.**
3. **Management improvements be undertaken within USDA to enhance its leadership role in trade matters.**
4. **Long-term agricultural trade policy objectives be developed and made binding on the interagency and intercommittee process affecting agricultural trade.**

USDA Leadership

The Congress should enact legislation to designate the U.S. Department of Agriculture as the lead agency within the federal government in all matters of agricultural trade, agricultural trade policy, and agriculturally-related foreign economic assistance.

The U.S. Trade Representative should continue to have leadership in international trade negotiations. The U.S. Department of Commerce and the International Trade Commission should continue in their current responsibilities and authorities in respect to the regulation of U.S. imports.

It should be the policy of the United States to prohibit the extension of new authority in any matter of agricultural trade or agriculturally-related foreign economic assistance to any agency of government other than the U.S. Department of Agriculture, except as provided for above or upon agreement by the Secretary of Agriculture.

All agencies of government that have programs or take actions that potentially or actually affect agricultural trade, agricultural trade policy, or agriculturally-related foreign economic assistance should be required to report to the Secretary of Agriculture semiannually on:

(a) the extent to which such programs or actions affect agricultural trade, agricultural trade policy, or agriculturally- related foreign economic assistance;

(b) the extent to which such programs or actions contribute to expanded U.S. agricultural exports; and

(c) the extent to which such programs or actions are consistent with the goals, objectives, and program recommendations contained in the most recent President's Annual Long-Term Agricultural Trade Strategy Report, as elsewhere recommended in this report.

Within 30 days of receiving such reports, the Secretary of Agriculture should be required to report to the Chairmen of the Senate Foreign Relations, Finance, and Agriculture Committees and the Chairmen of the House Foreign Affairs, Ways and Means, and Agriculture Committees his views and recommendations in regard to such information furnished by other agencies.

Agencies administering such programs should be required to coordinate such programs and actions with the Secretary of Agriculture and subject such programs and actions to approval by the Secretary of Agriculture.

Designation of Effective Agricultural Trade Spokesman

Legislation should be enacted to eliminate the position of the Under Secretary for International Affairs and Commodity Programs and establish two new positions of Under Secretary for Trade and International Affairs, and Under Secretary for Commodity Programs.

International affairs responsibilities of the Under Secretary for International Affairs and Commodity Programs should be transferred to the Under Secretary for Trade and International Affairs (hereafter, the Under Secretary for Trade).

The Under Secretary for Trade should serve as a member of the Board of Directors of the Commodity Credit Corporation, and as a member of the Trade Policy Review Group and Development Coordination Committee, Subcommittee on Food Aid.

Additional subcabinet positions within the Department of Agriculture under the leadership of the Under Secretary for Trade should be established as follows:

(a) Assistant Secretary for Trade Policy.

(b) Assistant Secretary for Market Development.

(c) Deputy Under Secretary for the Foreign Agricultural Service.

(d) No more than three additional Deputy Assistant Secretaries.

Appropriate attention should be given to ensuring an important leadership role in agricultural trade matters for the President's Special Assistant for Trade and Food Aid Development, as was intended by Congress in the 1985 Farm Act, and consistent with recommendations contained elsewhere in this report.

Management Improvements at USDA

Legislation or administrative action should be taken to reorganize the international programs of the USDA as follows:

1. Transfer to the Foreign Agricultural Service the International Economics Division of the Economic Research Service (ERS) and the World Agricultural Outlook Board (WAOB).
2. Establish the General Sales Manager's Office as a separate entity within USDA. Transfer to the General Sales Manager's

Office the programs and responsibilities of other agencies as follows:

a. Foreign Agricultural Service – export sales, market development activities, agricultural trade offices, P.L. 480, Section 416, and food aid programs.

b. Office of International Cooperation and Development – all programs and activities.

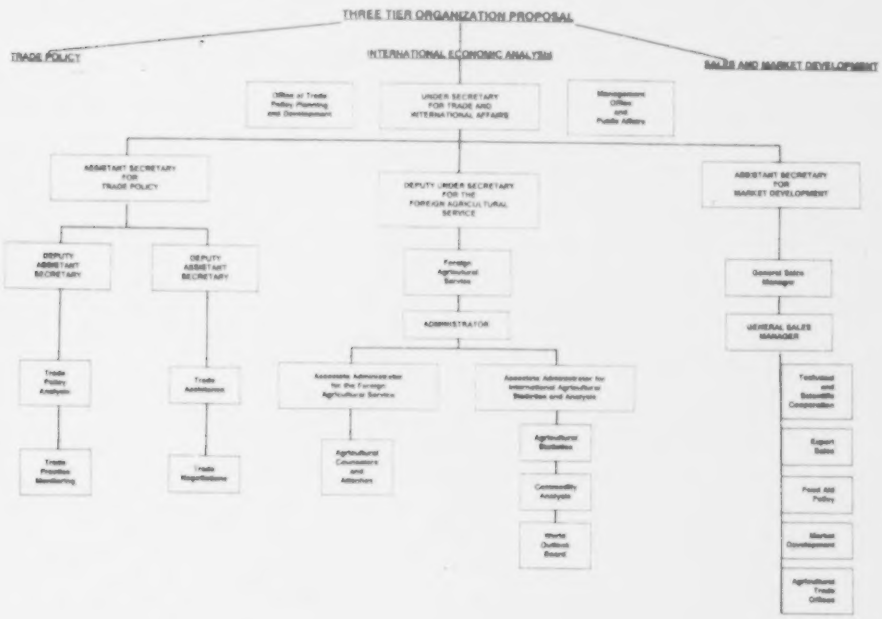
c. Office of Transportation – International Transportation Services Branch.

d. Forest Service, Soil Conservation Service, Food Safety and Inspection Service and Animal and Plant Health Inspection Service, Federal Grain Inspection Service, and other agencies of USDA – relevant export sales and market development, or technical assistance programs, as determined by the Secretary.

3. Transfer to the Assistant Secretary for Trade Policy the following programs of other agencies as follows:

a. Foreign Agricultural Service – trade policy development and analysis, assistance to agriculture in trade policy matters, and cooperation and assistance in trade negotiations with other Executive agencies of government.

4. Establish within the Department of Agriculture a reorganized international programs activity, as follows:



New Authority to USDA

The Secretary of Agriculture and Under Secretary of Agriculture for Trade should be required to undertake the following responsibilities:

(1) Ongoing unfair trade practice monitoring:

The Secretary should create within the Department of Agriculture an office the primary responsibility of which shall be to continuously monitor the trade-related policies and practices of other nations.

This office should prepare for the Secretary quarterly reports as to the incidence of unfair trade practices, including evidence of the disappearance of past practices or identification of new or expanded unfair policies or practices.

The Secretary should submit such reports within 15 days to the U.S. Trade Representative and the Chairmen of the Senate Foreign Relations, Finance, and Agriculture Committees and House Foreign Affairs, Ways and Means, and Agriculture Committees, together with his views and recommendations for improvements in trade and in technical capabilities for monitoring unfair trade practices and policies.

(2) Ongoing trade assistance:

The Secretary should create within the Department of Agriculture an office the primary responsibility of which shall be to continuously provide assistance to U.S. citizens and organizations damaged by unfair agricultural trade practices and policies, to include assistance in preparing cases for such entities before the U.S. Trade Representative, International Trade Commission, U.S. Department of Commerce, International Court of Trade, or other agency; assistance in providing and updating information regarding the incidence and severity of unfair trade practices and policies, and outreach assistance to U.S. citizens and organizations whose industries may be injured by unfair practices of which they are not aware.

The Secretary shall include in his reports on the incidence of unfair agricultural trade practices and policies an account of assistance provided by the U.S. Department of Agriculture to affected U.S. citizens, organizations, and industries.

(3) Permanent and expanded trade negotiations activities:

The Secretary should create within the Department of Agriculture an office the sole responsibility of which shall be to provide technical assistance to the Secretary of Agriculture and the U.S. Trade Representatives in all matters pertaining to international negotiations on agricultural trade-related issues.

This office should be required to consult periodically with Agricultural Policy and Technical Advisory Committees jointly administered by the U.S. Department of Agriculture and the U.S. Trade Representative on matters pertaining to agricultural trade.

Long-Term Agricultural Trade Objectives

The Secretary of Agriculture should be required to prepare and the President to submit, together with his budget for any fiscal year, an annual Long-Term Agricultural Trade Strategy Report, establishing recommended policy and spending goals for U.S. agricultural trade and exports for one, five, and ten year periods, beginning on October 1, the beginning of the next fiscal year.

Such a report should include the following:

(i) Actual volume and value agricultural trade goals for every agricultural commodity and value-added product produced in the United States, for the period in question;

(ii) Recommended federal policy and programs to achieve such goals;

(iii) Recommended levels of federal spending on international programs and activities of the U.S. Department of Agriculture to meet volume and value agricultural trade goals;

(iv) Recommended levels of federal spending on programs and activities of agencies other than the U.S. Department of Agriculture to meet volume and value agricultural trade goals;

(v) Recommended long-term strategies for growth in agricultural trade and exports taking into consideration the following:

(A) U.S. domestic competitiveness;

(B) Export enhancement, including credits and export payment-in-kind;

(C) Market development activities;

(D) Foreign agricultural and economic development assistance activities;

(E) Trade negotiations; and

(F) International monetary and exchange rate policies.

Provisions of the President's Long-Term Agricultural Trade Strategy Report which relate to recommended levels of spending on international activities of the U.S. Department of Agriculture should be treated as the President's Annual Budget submission to the Congress for such programs, and should be submitted in addition to an annual budget request for other programs of the U.S. Department of Agriculture.

The President should include in his annual Long-term Agricultural Trade Strategy Report recommendations for such changes in legislation governing international programs of the U.S. Department of Agriculture as are required to meet the long- term goals established in the Report.

The President should be required, in his next annual Long- term Agricultural Trade Strategy Report, to amend his previous report to reflect any legislative changes or changes in Executive priorities or policies that may affect the long-term policy contained in his previous report.

The Secretary of Agriculture should be required to establish within the Department of Agriculture an Office of Agricultural Trade Policy Planning and Evaluation, the Director of which shall serve under the direct leadership of the Under Secretary for Trade and International Affairs. The office shall coordinate the preparation of the President's Annual Long-term Agricultural Trade Strategy Report, together with the Assistant Secretaries for Trade Policy and Market Development, and the Deputy Under Secretary for the Foreign Agricultural Service and monitor for the Secretary the compliance of other agencies with requirements of trade impact statements as elsewhere recommended in this report.

STATEMENT OF ALEX CURTIS, PRESIDENT AND CEO, FARMERS GRAIN TERMINAL, INC., ON BEHALF OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. Chairman, my name is Alex Curtis and I am the President and Chief Executive Officer for Farmers Grain Terminal, Inc. I am testifying today on behalf of the members of the National Council of Farmer Cooperatives. The National Council is a nationwide association of cooperative businesses which are owned and controlled by farmers. The membership of the National Council represents about 90 percent of the nearly 5,800 local farmer cooperatives in the nation, with a combined membership of nearly 2 million farmers.

The members of the National Council handle practically every type of agricultural commodity produced in the U.S. and market these commodities domestically and around the world. As a result, trade is of vital concern to all of us.

In January, 1987 the members of the National Council adopted the following policy resolution:

AGRICULTURAL TRADE POLICY

The National Council of Farmer Cooperatives shall continue to work closely with other agricultural interests, the Congress, and the Administration in support of policies and programs consistent with the following principles:

1. Recognizes the importance to the U.S. farm economy and the general economy of strong exports of both agricultural commodities and value added products;

2. Recognizes the importance of maintaining and enhancing the United States' image as a reliable supplier of agricultural products in the world marketplace;

3. Renounces the use of agricultural export embargoes except during periods of a declared national emergency or after a declaration of war;

4. Denounces the use of unfair levies, tariffs or non-tariff trade barriers by the European Economic Community and other countries, and encourages the Congress, U.S. Special Trade Representative, and the Departments of Agriculture, Commerce, State and Treasury to make every effort to reduce these barriers to fair trade. If all such efforts fail and no other remedy is available, the National Council recommends appropriate retaliatory action against those countries which impose unfair trade practices;

5. Supports domestic and international economic policies which will create an international trade environment where U.S. agricultural exports can operate on a fair and competitive basis;

6. Recognizes the important role in which domestic farm programs and U.S. monetary and fiscal policies play in the ability for the U.S. agricultural sector to remain competitive;

7. Endorses reciprocity as the basis for gaining trade concessions from other countries either through bilateral or multi-lateral negotiations;

8. Establishes a statutory prohibition on the cancellation of valid commercial export contracts for agricultural commodities, except during a period of a declared national emergency or the event of a declared war; and

9. Supports efforts on the part of the U.S. government to expand exports of agricultural products through export credit and market development programs, and P.L. 480.

Agricultural policy is at a critical juncture in our history. The 1985 Food Security Act was a significant redirection in agricultural policy and in many respects it was a trade bill. It was a signal to the world that the U.S. was embarking upon a different approach to international agricultural trade. An approach in which the marketplace was to play a greater role.

A combination of marketing loan authorities and expanded export program options contained in the legislation has provided the current Administration significant tools to send the right signal to our competitors and our customers and to protect farm income in the transition.

It is essential for the future of agriculture that any comprehensive trade legislation which includes agriculture, be consistent with the objectives set forth in the 1985 Food Security Act. The rest of the world senses a commitment on the part of the U.S. to completely re-examine the nature of the global market. At the upcoming multilateral trade negotiations the U.S. has declared its intention to put everything on the negotiating table and called upon the rest of the world to do the same. U.S. agriculture is committed to being competitive and now it is essential that a global trade environment be provided in which competitiveness matters. If we are unable to achieve that environment through negotiation then other authorities should be provided to counteract and retaliate against unfair actions. Negotiating authority

for the next round on the General Agreement on Tariffs and Trade should be provided with this objective in mind.

The members of the National Council strongly support S. 490 as it relates to agriculture, including those provisions which would: (1) clarify existing trade remedies and streamline decision making with regard to unfair trade practices in recognition of the unique characteristics of agriculture and (2) strengthen the role of the Secretary of Agriculture while providing the Office of the U.S. Trade Representative with the necessary authority to address such practices.

In addition, we want to take this opportunity to express our strong support for the inclusion of a so-called natural resource subsidy provision. This provision would simply permit U.S. industries, including farmer cooperatives, which have been damaged by unfair trade practices involving natural resource subsidies to be allowed to seek relief under existing trade remedies and procedures.

For agriculture it is crucial that the world not sense a change in the resolve embodied in the 1985 Act. Other countries are well aware of the financial and political pressures that implementation of many of the provisions of the Act has generated. Indeed, in many cases they have sought to exert pressure to limit the scope of implementation. If new trade legislation is eventually passed and signed into law it will answer in part the question—will the U.S. stay the course upon which it has embarked with respect to agricultural trade?

Beyond establishing the parameters of a comprehensive reform in global trade laws, the need to fully implement the provisions of the 1985 Food Security Act must be reiterated. I have seen firsthand the results of the marketing loan program for rice—more exports, reduced stocks, more jobs and a revitalization of some rural communities. Others could attest to the similar success of the cotton program. If the Administration continues to choose not to implement the marketing loan for wheat, feed grains and soybeans they must aggressively use the full authorities for export programs contained in the Food Security Act.

I cite in particular the Export Enhancement Program (EEP). While this program has been extremely successful for wheat and some other commodities in selected markets, it has been implemented in a manner which has penalized many of our traditional customers. Indeed, while we have gained exports in some markets, we are losing opportunities in those markets not eligible for the EEP. Our unwillingness to go across-the-board on the program has been an inconsistency in our stated objective of aggressively seeking export markets. Failure to utilize the full $1.5 billion authorized for the EEP would also be inconsistent with that objective.

In this regard, we recently wrote the President urging that the EEP program be expanded in order to allow U.S. agriculture to compete in the international marketplace.

Such action, we said, is essential, particularly now when the Soviet Union and other potential customers have indicated a willingness to buy from us if offered competitive prices.

Mr. Chairman, I would also like to point to an issue of interest to the National Council which has yet to be addressed by any legislation currently pending in the Senate. In 1980 the banks for cooperatives of the Farm Credit System were authorized to finance agricultural exports sourced by farmer-owned cooperatives. Since making their first international loan in 1982, the banks for cooperatives have financed over $5 billion in U.S. farm exports. During 1986 alone, the Central Bank for Cooperatives financed $1.2 billion of exports sales to 22 countries. This authority is scheduled to sunset in 1990. Without early action to renew this authority, the System will find it increasingly difficult to maintain its international financing program. Undoubtedly, if this program is lost, it will have a negative impact on future U.S. exports. Legislation (H.R. 1298) to eliminate the sunset has been introduced in the House by Representative Ed Jones. I urge the Committee to review this and support companion legislation in the Senate.

Again, on behalf of the National Council of Farmer Cooperatives, I want to commend you for holding these hearings and for your continued leadership on this important issue.

Testimony by Dr. LaVern A. Freeh, Land O'Lakes, Inc.

Before the Senate Agriculture Subcommittee on

Domestic and Foreign Marketing and Product Promotion

Washington, D.C., Tuesday, March 10, 1987

My name is Vern Freeh, and I'm the Vice President of Public and International Affairs at Land O'Lakes, Inc. Land O'Lakes is a food and agricultural cooperative system owned by 325,000 farmers in the Upper Midwest. I appreciate this opportunity to offer my comments and observations on behalf of Land O'Lakes and its farmer-owners.

About seven years ago, Land O'Lakes made a major, organizational commitment to becoming much more involved internationally. This decision was motivated by the recognition that we could not afford to ignore the world scene. We live in a world economy. The economic conditions that determine the financial stability of farmers and the success of our cooperative's business are driven largely by international issues and policies.

We felt that the best way to learn about working in the international arena was to jump in and learn by doing. We decided on a two-pronged approach. 1) We built a traditional, sales-oriented marketing group. These individuals aggressively pursue opportunities to sell food products, commodities, animal feed, seeds, technology, and livestock to foreign customers. 2) We also organized a team of specialists and technical experts to provide technical assistance and special services for international economic development projects.

The developing nations of our world have a desperate need to invigorate their economies. They need healthy internal systems that provide incentives for their citizens to use resources wisely and efficiently. They also need to generate foreign currency so that they can play an active role in international trade.

Agriculture is always a key ingredient in local development. Developing nations need strong agricultural systems to provide a stable base for economic growth and increased per capita income. American farmers possess a treasure of knowledge on how to improve food production, and farmer cooperatives offer a universally accepted model for farmers to exercise some control over their own destinies and to prosper as agricultural productivity improves.

Let me cite examples of how Land O'Lakes has participated as a partner with the U.S. government in stimulating development:

In Jamaica we helped devise a way to use surplus U.S. butter and cheese to finance food and agricultural development. We helped organize the Jamaican Agricultural Development Foundation, and we continue to serve on the foundation's board. The foundation receives grants of cheese and butter from the United States under the PL480 Food for Peace program. A Jamaican firm processes the donated commodities into value-added products that are sold commercially within the nation.

Profits generated by the sale of these products provide a pool of capital for the foundation (estimated at $35-50 million over 10 years). The foundation then makes loans, loan guarantees, investments, and grants to various projects designed to increase Jamaican food production, improve processing and marketing capabilities, and promote the growth of the Jamaican economy.

In Ecuador we're helping to stimulate livestock production and to increase the supply of fluid milk available for human consumption. Land O'Lakes is helping a cooperative organization in Ecuador to convert U.S. donated nonfat dry milk (another PL480 grant) and into calf milk replacer. As Ecuadorian farmers switch their calves to milk replacer, greater quantities of fluid milk become available for humans. Furthermore, they will realize increased productivity in their dairy and beef production. Long term, we expect this project to result in an expanded market for U.S. sales of livestock, feed grains, animal feeds and ingredients, and other agricultural products.

The Foreign Assistance Act in 1985 and '86 required that $5 million be committed annually to projects that use surplus U.S. dairy commodities to stimulate international agricultural and dairy development. Land O'Lakes will administer more than $2 million of the grant funds provided by the '85 act.

Of course, we have encountered our share of frustrations in achieving these successes. For example, PL480 commodities for the Jamaica project must be approved by a Departmental Coordinating Committee. The goal of the committee is to assure that projects conducted by one department of the administration don't work at cross purposes to policy initiatives of another department. Unfortunately, our experience has been that the committee often takes an inordinate amount of time to approve projects. Then it gets unnecessarily and inappropriately involved with such details as the "call forward" of products once the project has been approved.

We've also encountered obstacles in our efforts to replicate successful programs such as the Jamaican project. Currently, PL480 "Food for Peace" and Section 416 guidelines excessively restrict the use of commodities in sales and barter projects of the type we've successfully used in Jamaica and Ecuador. Currently, U.S. cooperatives aren't even mentioned in the guidelines, and the types of programs we've conducted are no longer encouraged.

Thankfully, Sen. Melcher, with the support of Sen. Leahy, plans to introduce a bill -- the Agricultural Aid and Trade Missions Act -- that addresses some of these problems. The bill requires the administration to establish 15 agricultural aid and trade missions within a year. It also proposes to amend PL480 and Section 416 to make them stronger market development tools.

If passed, the Agricultural Aid and Trade Missions Act would address many of the frustrations we and U.S. private, voluntary groups have encountered. It also would expedite quicker action on the part of the Departmental Coordinating Committee by requiring a 45-day turnaround on food aid proposals. We're very encouraged by the bill. We thank Senator's Melcher and Leahy for their leadership and urge passage of their bill.

Despite past and continuing frustrations, our experience has been rewarding on the whole, and we have received some distinguished recognition for our efforts:

* 1984 Fowler-McCracken Commission Corporate Award for outstanding leadership in alleviating world hunger.
* 1985 President Reagan's World Without Hunger Award for the corporation that has done the most to alleviate world hunger.

It's one thing to successfully administer and conduct aid programs that involve free commodities distributed for development purposes. But it's quite another to try to successfully compete for commercial sales in the face of huge subsidies by the European Community.

The major stumbling block to making competitive sales of dairy commodities and food products is price. When we look at domestic prices, European consumers pay as much or more for dairy products as U.S. consumers. But whereas the U.S. government has a farm program in place to try to balance milk production with the domestic demand, the Europeans use an export subsidy to dump their surplus at price-depressing levels on world markets. Those subsidies are the main obstacle to effective U.S. competition with the Europeans for dairy product exports.

It's not that there aren't customers out there. Every year, Land O'Lakes receives literally hundreds of requests from foreign buyers for a wide variety of dairy commodities and products. But it's gotten so that we don't even bother to develop a quote on most requests because our experience shows we can't possibly meet the world price.

For example, here are the comparable U.S. price and world market price for commonly traded commodities. (The world price was developed by the Foreign Agricultural Service on Feb. 6.)

Commodity	U.S. price	World price
Butter	$3,000/metric ton	$1,000/metric ton
Cheddar cheese	$2,805/metric ton	$1,175/metric ton
Nonfat dry milk	$1,775/metric ton	$ 740/metric ton

This is not to say that we've been totally unsuccessful. We have sold several freight containers of cheese to Jamaica. They needed fresh cheese to blend with old cheese they received as a donation from the United States, under the program I mentioned earlier. We got the sale because of our relationship established through the Jamaican Agricultural Development Foundation, because we had product close at hand and because it was available immediately. We also have sold unsalted butter to Honduras. There a customer needed it quickly for processing. We had it and could get it to him. In each case, however, we got the sale only because price was not the critical factor.

Over the past couple of years, the federal government has implemented programs to help U.S. exporters overcome the handicap presented by competitors who undercut the U.S. price through subsidies. The Export Enhancement programs are a good example.

Land O'Lakes has experience with the export enhancement program for dairy cattle. During 1986, we signed a contract for sale of 7,500 dairy cattle to Indonesia. We could not have successfully bid on that sale without the bargaining power available through the export enhancement program. We could sell still more cattle under this program if USDA would transfer unused cattle allocations to nations that have a continuing demand for cattle.

Within the past few weeks, the Department of Agriculture announced a new dairy product enhancement program. We had high hopes for this program and submitted comments to USDA suggesting ways the department could design the program to make it truly effective and useful. Regrettably, the department rejected most of our suggestions, and the program that has emerged is largely unworkable and unhelpful in Land O'Lakes view.

Let me cite a couple of examples of the shortcomings.

In Land O'Lakes original comments on the program, we requested liberal substitution rules. These rules are needed to provide flexibility in meeting the needs of foreign customers. For example, the standard for salted butter in the United States is 80% butterfat. However, the standard in many nations is 82% butterfat. Thus the commodity available as a bonus from CCC inventory would be unsuitable for many foreign customers. Exporters should be permitted to manufacture products for the foreign market and substitute product received as a bonus from CCC for domestic sales.

The program requires that an exporter actually ship the product and certify that it has left the United States before the government will release the bonus commodities authorized under the program. This requirement precludes the exporter from making a single shipment to the customer, a situation that makes at least two shipments necessary at additional freight costs. The solution to this problem would be to permit the exporter to ship the bonus commodity at the same time as the original sale commodity.

Another problem specifically concerns sale of nonfat dry milk. Under the program provisions, the Commodity Credit Corp. will release older nonfat dry milk first; this product can be up to two years old. The older product is fine for animal feeds, but most tender offers are for fresher product, usually no more than four months old. Furthermore, sales of both the product and the bonus must go to a eligible nations listed by USDA.

As a result of this requirement, the exporter faces a rapidly shrinking list of options for selling the nonfat dry milk received as a bonus under the program. The difference in quality means the original customer probably doesn't want it. Furthermore, the relatively fewer customers on the eligible list means its harder for the exporter to even find a customer for the bonus commodity.

There are three possible solutions. 1) CCC should release bonus commodities of the same grade as the commodities sold. 2) The rules should permit sale of the bonus commodity to non-eligible nations. 3) The rules should permit the exporter to substitute product of the same grade for export and use the bonus commodity for a domestic purpose. So, if Land O'Lakes received certificates for a quantity of nonfat dry milk, it could export an additional quantity of fresh product and use the older product in its feed manufacturing operations.

The Food Security Act of 1985 anticipated only a relatively short-term program, ending on Sept. 30, 1989. That limited time was shortened further by the one-year delay in

implementing the legislation. For the program to successfully help establish U.S. exporters as reliable suppliers to foreign customers, we need a longer-term program. We recommend that Congress set the life of the program at five years and provide for an extension at the end of that period, subject to a satisfactory review of its success.

The program also only applies to exports of a limited kind of dairy products -- butter, butteroil, anhydrous milkfat, Cheddar cheese, American cheese, and nonfat dry milk. This provision totally fails to recognize the reality that foreign buyers want a wide range of products in various forms or packing. Without modifying this part of the program, the dairy product export enhancement program becomes little more than a transparent exercise in dumping surplus products.

Instead, the program should establish an acceptable formula to calculate the equivalency between products produced for export and products bought by CCC. Congress should note that many of the products produced for export would be value-added, creating jobs at home and providing a greater boost to the general economy.

One final key point: The federal government has a mandate to sell some surplus dairy products into foreign markets. This mandate could work at cross-purposes to an export enhancement program intended to stimulate private sector, commercial sales. To resolve the potential conflict, the program should restrict government sales of dairy products only to situations where it is impractical for the U.S. private sector to handle the sale.

Land O'Lakes experiences demonstrate that we can compete effectively in international markets when we have a level playing field with our competitors. Federal programs like the export enhancement program can successfully put U.S. companies on an even ground with subsidized foreign competitors. But the programs must be designed recognizing the demands of the marketplace and the workability of the mechanism. If a program, such as the dairy product export enhancement program, fails to meet these needs, the it should be corrected to make it more workable. We appreciate your attention to the matter, and we're encouraged by the provisions of the bills under discussion, especially the export enhancement provisions of S. 310.

Discussions of export trade programs also raise questions about the competitiveness of domestic producers and the consequences of opening U.S. markets to increased levels of dairy product imports. As I've mentioned, most dairy products move in international markets with heavy subsidies. Their prices have little to do with the costs of producing those items. American farmers can compete with dairy farmers anywhere in the world. But they can't compete with subsidies provided by foreign treasuries.

Section 22 quotas on imports of specific dairy products have played a necessary role in domestic dairy policy since the 1950s. These products protect the integrity of the dairy program by preventing subsidized exports from flooding the U.S. market to the detriment of American farmers.

We know that Ag Secretary Richard Lyng and U.S. Trade Representative Clayton Yeutter are willing to put Section 22 quotas on the negotiating table during the current round of GATT negotiations. This disturbs us greatly because the European Community, in particular, eagerly wishes to see the quotas eliminated.

We fear that our trade negotiators will be tempted to sacrifice dairy import quotas in order to secure improved access for grain and other export commodities. However, the United State should relax its dairy quotas only if other milk producing nations agree to eliminate their own internal protective devices and their export assistance programs.

Despite the Section 22 quotas, the U.S. dairy industry has suffered from excessive imports of casein. This product is the main protein in milk. It can displace domestic dairy products in feed and food products. Casein has slipped past the intent of the import quotas, and subsidized casein has siphoned off a sizable portion of the domestic dairy product market. Imports have more than doubled from 112 million pounds in 1976 to 229 million pounds in 1986. That quantity represents about 7.5 billion pounds of milk, equivalent to the production of nearly 600,000 cows.

About 87% of the casein used in the United States goes into food products and animal feeds. The most common food uses are cheese substitutes, imitation cheese, coffee whiteners, and dessert toppings. All of these products simulate domestic dairy products and are designed to displace them. This leads to lower commercial demand for domestic dairy products and increases the costs of the federal dairy program.

We urge that Congress set quotas on imports of casein and other milk proteins at a level equal to 50% of the average import volume during the past five years. Such quotas won't eliminate the burden of casein imports on U.S. milk producers, but they will limit the damage.

Thank you again for the opportunity to testify before you today. We at Land O'Lakes commend the members of this committee for their efforts and stand ready to assist you.

Testimony before the Senate Committee on Agriculture
Subcommittee on Domestic & Foreign Marketing and Product Promotion
Presented by Vernon Scott, Advisor
National Cotton Council of America
March 10, 1987

Thank you Mr. Chairman.

My name is Vernon Scott. I am a cotton producer and ginner from Tillar, Arkansas. It is a privilege to appear before you today on behalf of the National Cotton Council of America. The Council is the central organization of the U.S. cotton industry. Its membership includes representatives of seven (7) segments concentrated in the seventeen cotton producing states, but we have members throughout the United States.

We appreciate the opportunity to present testimony before the subcommittee because the subject of agricultural exports in general and cotton exports specifically are of utmost importance to our industry.

Mr. Chairman, the U.S. cotton industry places high priority on the development and maintenance of international markets. Our industry has a solid reputation for providing reliable supplies of quality cotton to our export customers.

This crop year and for the immediate future, U.S. exports of raw cotton are expected to recover to more normal levels. This is due, in large part, to the effectiveness of the marketing loan provisions mandated under the 1985 Food Security Act. After reaching near record lows in 1985, U.S. cotton exports rapidly recovered in the latter part of 1986 and will total nearly 7.0 million bales during the current crop year. Many have argued that the cotton program has been too expensive, but the positive results of the program meet the test of cost effectiveness. Domestic consumption and exports have recovered, CCC-owned inventories are virtually zero and there is little potential for future loan forfeitures. Further, even at its most costly point, the cotton program accounted for only 8 percent of total CCC price support outlays. As offtake continues to strengthen, the cost of the cotton program is projected to decline by nearly 60 percent and will account for only 4 percent of total CCC outlays by Fiscal Year 1988. This is because, following an initial price decline, U.S. and world prices rebounded to a level above the 1987 crop loan rate. The elimination of burdensome U.S. stocks and strengthening demand could result in stronger prices and minimal outlays for the cotton program in Fiscal Year 1988 and beyond.

The marketing loan program is and can continue to be an extremely effective trade policy for cotton. Its flexibility allows U.S. cotton to compete in an international market-place where over 98 percent of the competition is subsidized, either directly through production and export subsidies or indirectly through management of exchange rates. It has also allowed our industry to compete in a market where nearly half of the production is in centrally planned, non-market oriented economies, namely the Soviet Union and the People's Republic of China. The program has contributed to the establishment of a level international playing field. In recent years, foreign countries have expanded acreage without regard to supply/demand signals and U.S. producers have been forced to reduce acreage at significant expense to themselves

and the rural economy. The market loan has provided U.S. producers an opportunity to compete on equal terms. The program does not require U.S. negotiators to attempt to establish changes in any individual country's policy, rather the market loan provides an incentive to all U.S. competitors to play-by-the-rules of fair trade or suffer the consequences. The important point is that the consequences fall heavily on our competitors not on our own producers. Equally important, there is no discrimination between export and domestic customers.

The cotton industry cannot provide insight on the effectiveness of the market loan for other commodities. But we can assure the members of this subcommittee and this Congress that it is the most effective policy for our industry for the foreseeable future. The most effective trade policy that could be provided to the U.S. cotton industry would be the establishment of the marketing loan program as permanent authority.

Provided the marketing loan authority remains in place to ensure fair trade in international markets, the U.S. industry could effectively utilize other market development and export enhancement programs.

There are a number of government export and market development programs which have been utilized by our industry and which have made significant contributions to our export efforts in the past. These include PL-480, GSM credit and its successor GSM credit guarantees, and USDA's market development (cooperator) program. In recent months, we have qualified to participate in the Targeted Export Assistance (TEA) program to further strengthen our market development efforts, and one of our industry's segments -- the cottonseed products industry -- has made several proposals in an attempt to qualify cottonseed oil for the Export Enhancement Program (EEP).

The Foreign Agricultural Service's cooperator program is especially useful to our industry. The cotton industry was one of the first commodity groups to join the program at its inception in the mid-1950's. The program has been highly effective in providing seed money which is more than matched by U.S. and foreign customers to carryout effective market development activities tailored to specific conditions in individual markets. The program has a proven track record and is a model of government - industry cooperation. We also believe FAS personnel serving abroad are an important and integral part of the market development and market intelligence gathering functions. Therefore, we are disappointed that these programs seem to be consistently on the "hit-list" in the Administration's budget proposals. Fortunately, Congress has seen fit to restore funding in recent years, but inflation and currency devaluation have eroded spending power. We urge that every effort be made to give priority to these critical programs in establishing budget priorities. All of agriculture benefits from having U.S. representatives stationed in key markets. Industry groups will also need continued access to seed money to combine with their own funds to conduct market development programs targeted to important export markets.

We commend and support the provisions included in S. 512 which address the cooperator program and FAS staffing. However, we caution that the strength of market development and the expectation that funds and personnel be utilized efficiently and effectively make it necessary that flexibility be incorporated in any

legislation affecting these areas. In order to ensure that adequate funds and personnel are available to meet the conditions in the very dynamic international trade arena, we would urge you to reconsider how specific you want to be in directing funds to specific products or markets and how specific you want to be on the allocation of personnel time to market development versus market information gathering. We also commend the focus on continued use of surplus commodities to fund certain market development activities. However, we would urge caution on two points. The programs funded through surplus commodity distribution should be in addition to, not a replacement for the traditional cooperator market development activities. Further, the utilization of certificates rather than transfer of title should be encouraged since most cooperator organizations are not marketing agencies and should not be placed in the role of marketing products in competition with existing firms.

We would also urge the section of S. 512 relating to quality monitoring be revised to eliminate any primary role for USDA in dealing with quality disputes. In the cotton industry, the quality sold and delivered is subject to impartial arbitration whenever the buyer and seller are unable to reach amicable agreement. Our industry is somewhat unique in that the buyer has the right to inspect the shipment on delivery and to enter into amicable negotiation with the seller within a fixed period after delivery. If no agreement is reached, the dispute is submitted to an impartial arbitration board for settlement. Consequently, there is no useful purpose to be served in placing USDA personnel in the primary role of receiving and responding to quality disputes in the case of raw cotton shipments.

While PL-480 programs were designed primarily to deliver food aid, on occasion utilization of PL-480 for fiber and cotton products, such as cottonseed oil and cotton yarn, have helped our industry establish a foothold in certain countries. We would urge that priority continue to be given to food products -- including cottonseed oil -- under PL-480. However, we also suggest that in certain circumstances the use of PL-480 for cotton and cotton yarn can provide developing countries, which do not have sufficient materials to meet their domestic needs, with vital raw materials which stimulate industrial activity and thus economic development. Taking the development cycle further, economic development results in job opportunities, raises the standard of living and thereby can increase demand for agricultural products.

The GSM direct export credit (GSM-5) and export credit guarantees program (GSM-102) have been most effectively utilized to develop markets for our industry. When all other factors are equal, the ability to provide short and intermediate term credit can be a critical element in establishing and maintaining markets. With the single exception of Poland, there has never been a default on credit programs utilized for the purchase of U.S. cotton. In fact, USDA records reveal some years when direct export credit actually generated a net profit to the U.S. Treasury, and in any event the minimal administrative cost of credit and credit guarantees is far more cost effective than allowing commodities to remain in storage and increase the risk of loan forfeitures.

Since the wide fluctuations in the value of the U.S. dollar have added burdensome risk for countries signing medium and long-term dollar denominated credit obligations, utilization of

GSM-102 has fallen dramatically. However, the export credit guarantee program could become a useful tool if it were tailored to country specific needs and if some consideration could be given to the issue of exchange rate risk. For example, in many LDC's there could be a demand for short- and intermediate-term credit but the exchange rate risk simply renders the potential cost of credit prohibitive for the borrower. We would urge that the GSM-102 program be re-evaluated to determine if provisions for exchange rate risk and other local issues could be incorporated in an updated version. We would also urge Congress to re-evaluate the potential for funding a revolving-fund, direct credit program as authorized under the 1985 farm law. We recognize the difficulty of appropriating new funds, but there could be an opportunity to utilize income from repayment of outstanding loans to at least open the program.

We also take this opportunity to state our continued opposition to increased origination fees proposed in the President's budget. These proposed fee increases would render the program prohibitively expensive for all but the most desperate borrowers, thereby ensuring limited use and increasing the potential for default. Imposition of unreasonably high fees could actually have the effect of increasing the cost of the program by increasing the potential for loan defaults.

We realize that much of the testimony before the subcommittee has probably been devoted to the operation of the Export Enhancement Program (EEP) and PL-480. In the case of cotton, our market loan program actually serves as an EEP. However, one segment of our industry -- the cottonseed products industry -- has actively pursued an EEP for cottonseed oil. This industry traditionally exported over half of its production and there is no price support program for the products. In recent years, the expanded production of cheap, subsidized vegetable oils in Southeast Asia -- from plantations funded by AID programs in the 50's and 60's -- has resulted in the loss of vital export markets. Until recently, the industry could not qualify for an EEP because of objections in the inter-agency review committee that a program for cottonseed oil and sunflower oil would adversely affect certain South American debtor nations and other U.S. allies. Recently, however, USDA has been somewhat more supportive of a proposal submitted jointly by cotton, soy and sun oil processors. We sincerely hope the Department will support this proposal. Our cottonseed processors are facing difficult times as domestic markets are eroded by imports of cheap substitutes and our products are displaced in traditional export markets by heavily subsidized oils of South American, European and Asian origin.

Mr. Chairman, there are three other issues of special interest to our industry. We would urge that the trade legislation include provisions discouraging the U.S. government from providing direct funding to countries or organizations which might utilize those funds for projects which would encourage increased production of commodities in surplus. We also favor inclusion of provisions which discourage the transfer of production and processing technology to our foreign competitors unless there is assurance that the exchange would be of mutual benefit to the agricultural interests in both the U.S. and the recipient country.

We also urge the inclusion of strong provisions concerning foreign assistance programs. It has become U.S. policy to increase

the utilization of cash rather than commodities and processed products in our foreign aid programs. Often there is no requirement that the funds be utilized to purchase U.S. products. We would strongly support a requirement that based on adequate market evaluation and consultation, the U.S. utilize commodities and processed products or cash with a requirement that U.S. products and services be purchased with the funds. Only in extreme and unusual circumstances should cash transfers be utilized without specific purchase requirements.

Last, Mr. Chairman, we would urge the inclusion of provisions encouraging the study of the impact of the Foreign Corrupt Practices Act on the ability of U.S. firms to effectively conduct business in international markets. We recognize the title of the Act conjures-up images of scandle and bribery, but our firms are being forced to trade under rules that simply do not fit the local conditions of many foreign nations. It would be convenient if Japanese and European trading companies followed our rules, but they do not and the legislation should be reviewed to determine if it is in fact inhibiting our ability to do business. Likewise, certain of our rules regarding the formation of trading companies and our anti-trust laws are certainly hurting our industrial firms and may also have a detrimental effect on our agribusiness firms. If indeed our objective is to pass legislation restoring our ability to compete, then these legislative issues should be carefully reviewed and new policies developed, as needed.

In summary Mr. Chairman, the raw cotton industry is recovering export markets thanks to provisions in the 1985 farm law and active promotion programs. As long as we have a level playing field, we can devote our efforts to remaining competitive through market research and development. We believe there are provisions which could be included in the trade bill to further strengthen our competitive ability. We urge that adequate resources be made available to continue the FAS cooperator program and that careful consideration be given to strengthening our export credit programs. Finally, we urge this subcommittee and others with appropriate jurisdiction to keep a watchful eye on the GATT negotiations. Perhaps much good can come from these international negotiations, but we must ensure that U.S. negotiators do not bargain away effective programs without receiving assurances that our trading partners and competitors will honor any reciprocal long range commitments. Cotton's market loan is an excellent example of how the U.S. can play by the world's rules and win, it would be disasterous to bargin it away.

Thank you for the opportunity to appear before you today.

STATEMENT OF ROBERT M. BOR
IN BEHALF OF THE NATONAL CORN GROWERS ASSOCIATION
ON THE CANADIAN COUNTERVAILING DUTY CASE

Mr. Chairman, Members of the Committee, my name is Robert M. Bor. I am a member of the law firm of Bishop, Liberman, Cook, Purcell & Reynolds and I am here today to testify on behalf of the National Corn Growers Association. The Association is meeting in Washington this week in order to develop its position on trade legislation that is currently before the Senate, and the Association will advise you in the very near future as to the position it takes on the various bills which have been introduced.

I am appearing here today to discuss the countervailing duty action that was instituted last year by the Ontario Corn Growers in Canada against imports of corn from the United States. This represents the first countervailing duty action ever instituted against exports from the United States and involves an agriculture commodity, corn, which is so dependent upon export markets for the well-being of farmers here in the United States.

On February 2, the Deputy Minister of National Revenue in Canada made a final determination that imports of corn into Canada are subsidized directly or indirectly by the United States in the amount of 84.9 cents per bushel or 55 percent of the current Chicago price of $1.55 per bu for March delivery. Last Friday on March 6, by a two to one vote the Import Tribunal in Canada determined that the so-called subsidizing of imports into Canada of corn originating in the United States, with two exceptions, has caused, is causing, and is likely to cause material injury to the production of corn in Canada. The exceptions are imports of ~~Canadian~~ corn into British Columbia, which from time to time accounts for a substantial amount of corn imports, and imports for the snack food industry.

The net effect of this action is that a wall in the form of a duty in the amount of 84.9 cents per bushel will be imposed to preclude further imports of corn from the United States into most of Canada. The decision of the Import Tribunal was a disappointment to us insofar as it affects imports into provinces other than British Columbia. We believe that we had presented a compelling case that the Canadian corn producers were not injured by imports of corn from the United States and are deeply concerned that this case may act as a precedent and result in other countries may taking comparable actions to erect new import barriers against imports of agricultural commodities from the United States. In fact, a delegation of French corn growers recently visited with their counterparts in the Province of Ontario on the case and later made an aborted effort to institute a comparable action with the European Economic Community.

At this juncture I would like to provide a little background information concerning the case. The Canadian statute, the Special Imports Measures Act, which gave rise to this action, is based upon the GATT Subsidies and Countervailing Duties Code agreed to in the Tokyo Round and on the United States Countervailing Duty Statute. Just like our own law, the process is divided into two phases. First, Revenue Canada must determine whether, in fact, the imported goods are subsidized; if so, whether the subsidies are the kind to which the remedy of countervailing duties is addressed and the amount of the subsidy. In brief, a program which is generally available is not considered to be countervailable while a program, which is

targeted to a specific enterprise, is considered subject to countervailing duties. The second phase of the process is handled by an administrative agency, The Import Tribunal, similar to our own International Trade Commission, which must determine whether the subsidized imports has caused, is causing, or is likely to cause material injury.

The countervailing duty action was part of a deal worked out with the Canadian government. The Ontario corn growers instituted this action in return for a commitment for a special deficiency payment program from the Canadian federal government.

The action was instituted based upon allegations that 64 Federal programs and 20 state programs were subsidizing the production of corn in the United States. The thrust of the complaint was that the 1985 Farm Bill had resulted in a sharp reduction in prices quoted on the Chicago Board of Trade and, consequently, on corn prices in Canada which are based upon the quoted CPOT prices.

The Ontario Corn Growers alleged that this resulted in material injury since they could not afford to produce at the reduced prices, which were below their cost of production, whereas producers in the United States have the benefit of deficiency payments and other so-called subsidies which enabled them to continue in production. The Ontario Corn Growers listed in their complaint the litany of programs administered by the Department of Agriculture as well as programs administered by the Departments of Commerce and Interior and special fuel tax provisions administered by the Internal Revenue Service. They covered such diverse programs, in addition to the feed grain program, as agricultural research through ARS, CSRS and the Extension Service; the Farmers Home Administration operating loans, real estate loans, emergency loans and farm housing loans; REA loans; the soil conservation programs; the FAS market development export credit, credit enhancement programs; the Interior Department's reclamation programs; the ethanol program, and many others.

Through our efforts, Revenue Canada dismissed the complaint as to 58 Federal programs and all the State programs, narrowing the complaint down to a half dozen. Most of them were eliminated based upon the determination that they were generally available and not limited to producers of corn. The export programs were also eliminated since none of them was used in connection with exports of corn to Canada. The so-called subsidies that were found countervailable consisted of deficiency payments, commodity loans and purchases, diversion payments, reserve storage payments, and to a very minor extent, storage facility loans and the Great Plains Conservation Program.

We were particularly exercised with the adverse determination of the Import Tribunal insofar as it affects provinces other than British Columbia. We are convinced that there is no basis for an injury determination in connection with imports of corn from the United States, that there was no causal-linkage between imports of corn from the United States and any injury to the Canadian corn industry. In fact, from the period 1980-81 to 1985-86, imports from the United States declined sharply from approximately 22 1/2 percent of the Canadian market to some 6 percent of the Canadian market. At the same time, production of corn in Canada has increased. The combined effects of the U.S. Government programs over the course of the last five years have in fact benefited Canadian corn producers by exerting an upward influence on the price of corn through the loan rate, by reducing

the amount of corn grown in the United States, and by storing excess supplies. In fact, it was the U.S. farm programs that contributed to an increase in Canadian corn production and this sharp decrease in imports. It was our contention that although prices have fallen after enactment after enactment of the 1985 Farm Bill, they are still higher than would otherwise be the case in the absence of a program. We presented an econometrics study prepared by Wharton Econometrics which showed conclusively that in the absence of any farm legislation, U.S. corn prices would decline further and remain depressed for several years, in fact, for the period through the expiration of the 1985 Farm Bill.

The decline in Canadian prices is the result of a world-wide over-supply of corn brought on by decreases in imports by traditional importers and increases in production by new exporters, such as Argentina and China, that have occurred during the four years period of the 1981 Farm Bill when our loan rates were supporting prices at high levels. The real complaint of the Ontario Corn Growers is that we have not continued to support their prices at the same level as provided in the 1981 Farm Bill.

We also argued that the price of corn in Canada would increase very little, if at all, as a result of the imposition of countervailing duties. Any increase in price, in our view, would be of very limited duration. First, Canada in recent years has been a net exporter of corn. To continue exporting, it will have to compete pricewise with other countries; otherwise corn that would be exported would be redirected for sale in Canada adding to surplus supplies there. When Canada is not a net exporter there are other constraints on increases in the price of corn. Canada is a large producer of feed-wheat and barley and these grains which are produced in Canada, are shipped at subsidized freight rates to Eastern Canada and are available as substitutes for live stock feed. With respect to industrial uses, a number of companies export their products to the United States, such as companies that produce corn sweetners and Canadian whiskies. To the extent that there is a great disparity in price between U.S. and Canadian corn these firms likely will import corn from the United States instead of using corn of Canadian origin and obtain a duty draw-back when their product is exported to the United States. Those industrial users that sell to the Canadian market will be unable to raise their selling price to any great extent, or else they will lose in competition with products that are imported from the United States. This will act as a further constraint on price increases. We were supported in our efforts by the American Farm Bureau, the Canadian Export Association, the Canadian Distillers, the Industrial Corn Users and the feed manufacturers.

We do not yet know the basis for the position of the Import Tribunal. Its opinion will be issued in the course of the next two weeks. Likewise we do not know the final results of this case. The Canadian countervailing duty statute affords the users, such as the industrial users, distillers and others, an opportunity to request relief from the countervailing duty for public interest reasons; namely, that they cannot satisfy their needs from Canadian sources. It is possible that further consideration will be given to this issue. In any event, limited amounts of corn will continue to move into Canada — into British Columbia, and probably to industrial users who export thir products to the United States and obtain a duty drawback on any U.S. corn that they may import.

In our view, this decision has wide ramifications. First, as

I have mentioned, undoubtedly it will act as a precedent in encouraging other countries to take comparable action to limit access of U.S. agricultural commodities. In addition, this type of a decision is going to create somewhat of a pall on the free trade talks with Canada. It will lose support from an agricultural constituency for those free trade talks. It must be remembered that Canada has more to lose than the United States in these types of actions because Canada has a favorable balance of trade with the United States to the extent of over $20 billion. Beyond this, it is going to create complications in the GATT negotiations in the future.

I would also like to comment on efforts here in the United States periodically to expand further the reach of the U.S. countervailing duty statute. In many respects Canada has copied our own countervailing duty statute. Other countrie,, as well, look to the U.S. statute as a model for drafting their own provisions. In addition, Canada has used the U.S. case precedents which have developed since enactment of our law as a point of reference for its own decisions. In other words, whatever we do here is being copied elsewhere.

To the extent that we expand our law it will result in other countries following suit. This only means that in the future we can expect other countries to make further and further use of countervailing duty law to impede access of agricultural commodities. We pride ourselves on the impartiality of the International Trade Commission in its decisions. We should not be surprised if the results in other countries by comparable bodies are much more politically oriented. Therefore, here in the United States, we should be cautious in the kind of changes that we make in our countervailing duty law so that it does not boomerang and serve as a basis for reducing access abroad to exports of U.S. agricultural commodities. Remember, recovery of the agricultural sector depends so much on maintaining and increasing exports of agricultural commodities.

ONTARIO CORN PRODUCERS' ASSOCIATION,
Guelph, Ontario, November 13, 1986.

CEA Paper No. 408.

Mr. FRANK PETRIE,
President, Canadian Export Association, 99 Bank St., Suite 250, Ottawa, Ontario, K1P 6B9.

DEAR MR. PETRIE: Thank you for your letter of October 23 and the enclosed annual report.

Last spring, the Ontario Corn Producers' Association presented a brief to the Federal Government outlining the expected injury from the U.S. Farm Bill, and a proposed series of responses to counter the damage to Canadian corn farmers. The responses included actions which corn farmers would undertake themselves, and actions needed by the Government. Included in the former was a commitment on our part to seek a countervailing duty. Chief among the latter was a request for a special deficiency payment program to cover expected short-comings in the current Agricultural Stabilization Act program for grain corn.

To date, both parties are responding to their part of the "deal" outlined in our brief. Corn farmers have sought a countervailing duty and the Government has announced its intention to help grain farmers with cash flow problems caused by the U.S. Farm Bill.

Our Association cannot reverse its position at this point for two reasons: the commitment we made to the Government and the lack of detail which presently exists relative to the billion-dollar federal program.

We are surprised at the concern which the grain trade had expressed over the countervailing duty. The Canadian grain processing and grain exporting industries have operated for years with the border being effectively closed to imports of wheat, barley, oats, and rye. We would argue that all which has happened is that corn is now added to the list.

In times of surplus corn production in Canada, we expect that the domestic corn price will decline to export clearing levels, at least for sales to countries such as Cuba. In times of domestic shortages, the price will be set by the availability of competitive Canadian grains—the same as now occurs for feed wheat and barley.

We thank you for your letter and hope that this letter addresses some of your concerns.

Sincerely,

EDWARD KALITA, *President.*

THURSDAY, MARCH 12 HEARING

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Mr. Chairman and fellow subcommittee members, this is the second in this most important series of trade hearings, and I look forward to listening to testimony from our distinguished list of witnesses, including Mr. Bill Quarles of Sunkist Growers, who appears before us today. I am interested particularly in learning of Mr. Quarles' evaluation of the Targeted Export Assistance Program and its effect on the citrus industry. At the appropriate time, Mr. Chairman, I would appreciate the opportunity to discuss this matter with him.

As members of this subcommittee know, we will need to consider strong export legislation to reverse the drastic downward trend in American agricultural exports. U.S. agricultural exports have fallen from a booming $44 billion in 1981 to a dismal $26.3 billion last year—a painful indicator of U.S. vulnerability. If we are to protect the economic vitality of our Nation's farmers, we must consider trade legislation that reflects what I refer to as the Wilson golden rule. Quite simply, this rule states: if you let me in your markets, I'll let you in mine.

Having said that, Mr. Chairman, let me close by indicating that I look forward to working with members of this subcommittee and the full committee in developing an agricultural trade bill.

[The following material was inserted by Orville Freeman in support of his oral presentation:]

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Building Commercial Markets: The Key to U.S. Rural Prosperity

By ORVILLE L. FREEMAN

President & Chief Executive Officer, Agriculture Council of America
Chairman of the Board, Agriculture Council of America Education Foundation

American agriculture is a production miracle!

Less than 2 percent of our population feeds the American people better and at a lower cost, as a percentage of income, than the farmers and ranchers in any other country in the world. To do this requires only 60 percent of our production capacity, leaving 40 percent available for other uses.

Therein lies the challenge: how do we use this 40 percent humanely and constructively, so that our great agricultural industry, which accounts for 20 percent of our gross national product and employs up to 22 percent of our work force, can prosper?

The Agriculture Council of America export initiative, outlined herein, sets forth an action program designed to meet this challenge of abundance.

The ACA program, vigorously implemented by a working partnership between the private and public sectors, will, we believe, return American agriculture to the prosperity we enjoyed in the seventies, the best years for agriculture in our peacetime history.

The primary thrust of this program is building commercial export markets around the world, country by country. That was done in the late 1950s and throughout the 1960s. The result was strong worldwide demand, followed by good prices in the marketplace.

The American people seem to have forgotten that such systematic conversion of latent demand into commercial markets was what made the decade of the 1970s a golden period for American agriculture.

The farm program for today should once again focus on building demand and, with it, commercial markets. We must update the programs that built the exploding commercial markets that carried farm income to historic peacetime highs in the seventies to meet current conditions and challenges.

Sustained growth in U.S. agricultural exports is absolutely essential revived prosperity on our farms and ranches and in the input-supply and transportation businesses that serve them.

Assuring that kind of growth is -- or <u>should</u> be -- the primary federal farm program for the balance of this decade.

Such a program is neither simple nor a refuge for the lazy or weak-spirited. It takes thought and planning and hard work. Every business in America knows that customer-building, concentrating on demand, is tough.

This approach is far less expensive than the traditional farm programs that concentrate almost exclusively on commodity prices, and its returns are far more solid and substantial. They range across the whole of agriculture, not just grains, feedstuffs and major fibers.

Careful research continues to prove that, underneath the unusual global weather conditions and macroeconomic forces of the seventies and early eighties, creative, coordinated food-assistance, economic-development and market-building programs -- carried forward by the federal government in the late 1950s and throughout the 1960s -- laid the groundwork for the exploding markets of the 1970s and early 1980s.

Two major trends must be set in place to achieve sustained growth in U.S. agricultural exports again: total world trade in farm products must be stimulated to grow once again, and U.S. agriculture must be positioned to sell its fair share of the products needed by that growing market.

U.S. agriculture has been positioned to sell into the world market again by the commodity-program provisions of the 1985 Food Security Act. Prices are being taken to competitive world levels, while our agricultural resource base -- both producers and their assets -- is being held ready by the income-support programs to meet new, and potentially explosive, demand.

But, that aspect is just another expensive federal program feeding on itself unless we act now to set in motion the first trend, restimulating the world market. Initiatives with that objective were also mandated by the 1985 act but have been generally ignored in spirit, if not in terms of the letter of the law.

The drop in the value of U.S. agricultural exports from $43.8 billion in 1981 to $26.3 billion last fiscal year is estimated to have cost the economy of the United States $122 billion and tens of thousands of jobs. The lost sales of $49 billion worth of farm commodities, compared to the 1981 level, are just the tip of this iceberg. The larger part is the shortfall suffered by the rest of agriculture: input suppliers on one side and processors, transporters and marketers on the other.

The latest USDA forecasts project that the macroeconomic forces loose in the international market today will bring about increases in world farm-trade volume of some 3 to 4 percent a year.

That's only the level of increase of the depressed fifties and sixties! We lost that much ground in one quarter during the last trading year. Such a rate of recovery is unnecessarily low. It can be accelerated if the federal government takes seriously and acts vigorously on the policy commitments it made when the President signed the Food Security Act of 1985.

The most sensible, cost-efficient course toward recovery of rural America is a broad, comprehensive, integrated program of economic developmental assistance and commercial-market building, country by country.

Each potential country/customer is different. Each needs to be matched to the best combination from the wide range of public and private resources available in the United States. The product needs to conform to the customer's needs, not vice versa. That's a basic tenet of good salesmanship. U.S. policymakers need to be pushed back to the basics of increasing export-market demand.

Let's apply a little history to this issue for a moment.

American agriculture has had three booms and now three busts in this century. World wars brought or sustained the first two periods of prosperity. Each was followed by two decades of bust.

The supply-oriented research work that coincided with the rapid industrialization of the late 19th century paid off during World War I -- the need was there, U.S. agriculture could meet it and rural

America prospered. Prices collapsed in 1920, two years after the war ended. "Surplus" became the major agricultural policy issue instead of scarcity.

We in agriculture were "bust" for two decades -- until the Second World War demanded, and got, the largest agricultural output in world history. The Marshall Plan, redevelopment of the economies of those we had beaten, helped significantly in putting off another day of reckoning, but bust came again, in the late 1940s and the 1950s. "Surplus" was again the buzzword of American agriculture.

Once again, it was two decades before another boom. From the last half of the sixties to the first half of the seventies, the value of our exports tripled, volume went up by about half, farm income was at its highest levels ever and rural America was alive with growth and excitement.

But, this time there had been no world war. What, then, had been done right to bring about this continuing growth? A lot of macroeconomic factors outside of anyone's control were at play. But, something else was going on at a more fundamental level that was of more lasting importance then and still is.

That third boom was triggered by bad weather and bad crops abroad for a year or two, but it was sustained by the well-planned, thorough and persistent U.S. program of food aid and economic development in the Third World that was underway in the preceding 15 years.

Drafts of a forthcoming study report from USDA on national-development and trade patterns since 1960 show an amazingly stable long-term trend: coordinated food aid and development assistance turned poor countries into rapidly emerging nations, with both strong agricultural production and an explosive demand for foodstuffs from abroad, without long-term competition of consequence for U.S. agriculture as a whole. The effect on U.S. exports was large and positive.

Where there is growth at all in our export markets today, in the world market as a whole, it is in that set of Third World nations we concentrated on in the sixties -- for example, South Korea, Taiwan and Mexico -- that now rank in the upper-middle range of per capita income.

Such programs were allowed to drift during the prosperity of the seventies because many people believed we would never again have significant surpluses, there were too many hungry people in the world. That was a serious mistake. We still have hungry people, we again have surpluses and we have had five years of sharp declines in the export market. The United States clearly must return to demand- and customer-oriented policies or cut back our agricultural capacity by as much as 40 percent and write off a century of technological progress and superior productivity gains.

When John F. Kennedy took office in January 1961, agriculture's underlying problems were not unlike those of the 1980s: under-used capacity and domestic prices that were above the levels of the world market. President Kennedy saw our number-one economic problem as farm income and rural decline. He saw, and was appalled by, the paradox of a world full of food and a world full of hungry people.

His answer, and my charge as secretary of agriculture, was to feed people and build commercial export markets. We refined the Food for Peace program and seriously began to work with it -- country by country, matching the tools it gave us to the developmental needs of the potential buyer, using our surpluses both as food for

the hungry and as capital to be turned into cash.

That latter device -- monetization -- is very important. The donated surpluses are sold inside the country. The local currency that is generated is used to carry forward an economic-development program to help to get a country out of a subsistence economy. There are many, many projects for which we can monetize these commodities -- furthering both the process of development for sustained commercial-market gains and the goal of reducing our stockpiles.

Many provisions of the law call for monetizing commodities in that way, but they are not used aggressively today. The National Commission on Agricultural Trade and Export Policy recommended last year: "Congress should call upon the Administration to restore the proportion of food aid in its foreign economic-aid budget from the current level of 18 percent to one-third of the total of all such assistance, the same proportion of food-aid resources as provided in the period 1968 to 1972." Monetization is a tailor-made, budget-conscious way to help achieve that goal.

Using such devices, we became competitive in the world market in the sixties. We blocked dumping, although we were unable -- then, as now -- to do much about the Common Agricultural Policy of the European Community. We tailored our resources to the particular needs and capabilities of each country. We began sales to Iron Curtain countries. We launched the private-sector cooperators program of the Foreign Agricultural Service, to target specific commodities into specific markets. We created demand by helping clients become customers.

In the process, we sold American farm commodities. We took South Korea, Taiwan, Spain, Mexico and others from bare-subsistence economies and minimum food imports to status as billion-dollar markets for U.S. agriculture. Brazil and more than a dozen others are on the same track now.

Korea, an economic basket-case in 1961 with per-capita income of $83, now boasts per-capita income above $2,200 a year. Our 25 years of food aid to Korea cost less than we now get back in a single year of sales to Koreans.

There are many more Korea-type areas out there for American agriculture today.

By 1970, developing and centrally planned countries were taking 34 percent of our exports. By 1980, at the end of the boom, they were taking 49 percent -- almost half. Today, despite the downturn and loss of other markets, developing countries alone are expected this year to take 43.5 percent of U.S. agricultural exports. Between 1974 and 1984, food imports by developing countries rose 3 1/2 times faster than agricultural-production increases in those countries and at five times the rate of population growth. (The centrally planned nations come in and out of our markets. The industrialized world is taking less, while becoming both more self-sufficient and more competitive with us.)

When economic development occurs, growing nations import more food. With 75 percent of the world's population, and exploding population growth, those developing countries were the target markets in the 1960s and 1970s. They should once again become our target markets.

In October, market-development experts for seven organizations representing the major export commodities evaluated 62 countries' needs and matched them up against tools available through the 1985 farm bill.

In 1985, we sold 26.6 million metric tons of grains, soybeans and products to those 62 nations. The study found that full and innovative use of the available programs could have meant an additional 17.4 million tons -- 65 percent more -- shipped out of U.S. storage and into the market, without displacing either the local producers or our competitors.

Such action would have saved the government hundreds of millions and brought 10 million acres back into production -- the key to revitalizing our input-supply industries in the Midwest. And, we would be talking about 16 percent increases in over-all feedgrain-export projections instead of the 4 percent "growth" forecast for our No. 1 export commodity, following a 33 percent 1985-to-1986 drop.

Our current situation can be turned around. We have in the law and in our economic structure the following tools, some with mandatory instructions and some with discretionary authority:

- Foreign economic assistance
- Agricultural commodity assistance
  - P.L. 480 (Food for Peace) & Section 416 - Food and development aid for the low-income countries
  - Intermediate-term Credit - For the newer "A.I.D. graduates" who make up more than half of the 20 countries projected to show significant growth in food imports through the year 2000.
  - Short-term Credit - For newly industrialized countries
  - Export Enhancement & Targeted Export Assistance Programs - To meet unfair competition
  - Surplus commodities - To use as capital (monetization) as well as humanitarian relief.
- Private-sector Expertise
  - Market-development Groups - Partially funded by USDA's Foreign Agricultural Service
  - Private voluntary organizations - The vanguard of humanitarian and developmental-assistance efforts worldwide, partially funded through A.I.D.
  - Export Industries and Investors
- Governmental Expertise Abroad
  - Agricultural Attaches (USDA)
  - Commercial Counselors (Commerce)
  - A.I.D. Missions
- Financial Institutions
  - World Bank
  - International Monetary Fund
  - Export-Import Bank
  - Regional banks, et alia

To use those tools effectively, we need plans: comprehensive studies of a particular country's needs and capabilities to match against the available tools. It is extremely important to remember that we cannot come up with just a generic, one-size-fits-all approach to the whole world. To be effective, we must reach out to each country and integrate its situation with our programs and resources.

The Food Security Act enacted in December 1985 mandated a special assistant to the President to identify 15 or more target countries and coordinate the development of such plans, with annual reports to the President and Congress on their progress. The special

assistant was not appointed until October 1986. So far, movement in the direction of country plans has been slight, at best.

Planning is nothing more than an idle tool without a very strong commitment at the highest levels of the government and private industry to true foreign-market development as the chief farm program of the United States. Only with such commitment will we have uniform, coherent objectives and coordinated operations in the pursuit of maximum agricultural export expansion.

The Agriculture Council of America is a national umbrella organization that cuts across all of American agriculture, with individual and business members from all sectors of the U.S. food and fiber system. It is leading the way toward securing a major commitment in the private sector to build once again an effective partnership with the government in this vital work.

We hope the leadership of both political parties now will bring to life a matching commitment within the government.

STATEMENT OF DEAN R. KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation, the nation's largest general farm organization with over 3.5 million member families, appreciates the opportunity to present its views on various pieces of proposed trade legislation.

American farmers have a tradition of strong support for a more open world trading system. International trade is of vital importance to the well-being of our farm sector in terms of inputs purchased and outputs sold. The growing government interference in trade is of great concern to the U.S. farmers. We can compete with farmers in other countries, and are willing to do so. We are not willing to compete against foreign governments, nor should U.S. taxpayers be used to make U.S. products competitive for the longer run.

Few would deny that there are problems in the world trading system. U.S. agriculture has felt the repercussions of some of these problems. We have seen weak, ineffective and confusing GATT rules on export subsidies permit the European Community to increase dramatically its net exports of many farm commodities in recent years. Japan and other countries employ import quotas and quantitative restrictions to limit foreign competition in their markets. There are no international rules at all to govern certain trade practices such as variable import levies. Farm Bureau believes the solutions to these sorts of problems lie in finding ways to reduce all types of government intervention in trade.

It is a constant and often uphill battle just to maintain the status quo in market access opportunities. The recent U.S.-EC dispute resulting from the accession of Spain and Portugal to the Community is one example. And now we are facing new efforts by the EC to impose import restrictions on vegetable oils and meat products. The EC is proposing to tax the consumption of vegetable oil to raise money to help pay for the Common Agricultural Policy. The meat restrictions are non-tariff barriers disguised as measures to protect consumers' health.

In this environment, to accept the need to reduce trade restrictions and open new markets requires strong political commitments on the part of major trading countries. Such political commitments are traditionally only generated in the context of multilateral trade negotiations.

Farm Bureau supports the development of trade legislation in the U.S. At the same time, we have deep reservations about portions of various bills that would attempt to legislate more balanced trade through unilateral U.S. import restrictions or mandated U.S. retaliation against foreign trade.

In some cases, the U.S. may be competitive with foreign producers because of unfair foreign government actions. In other cases it may be because of poor management decisions, higher labor costs or excessive government regulation. Whatever the case, Farm Bureau believes the solution is to eliminate the causes of the failure to compete. The solution is not to manufacture legislatively increased competitiveness through new import restrictions. In the long run, government-induced "competitiveness" simply camouflages and perpetuates domestic inefficiencies.

American agriculture has had a great deal of experience with the competitiveness problem. We have lost competitiveness in recent years for a number of the same reasons mentioned above—foreign unfair trade practices, the strong dollar in the early 1980's, and excessive U.S. government intervention in our principal farm export commodities. By far the biggest competitiveness problem for U.S. farm exports in recent years was our own government price support programs which did not allow U.S. export prices to respond to world market conditions and which stimulated production and exports by foreign competitors.

Farm Bureau believes that the Food Security Act of 1985 has put us on the right track to regain that lost competitiveness. We recognize that we will not regain all of our lost export markets overnight. However, U.S. trade legislation should support, not hinder, the process of regaining our competitiveness.

Farm Bureau will continue to oppose imports of products that compete unfairly in our market. Dumped or subsidized goods should be met with compensatory import restrictions to prevent injury to domestic producers. Our trade laws need to be improved to deal with such unfair imports in a quicker and more effective manner.

Farm Bureau believes that any trade bill should embrace the following general goals: First, to reiterate, it should be export oriented rather than import protectionist. It should aim at getting our own house in order in terms of removing existing barriers to U.S. competitiveness. It should strengthen our ability to respond to specific foreign unfair trade practices by making the trade complaint process quicker, less costly to domestic producers and by reducing foreign policy influence over legitimate trade concerns. It should promote market-oriented foreign economic development and address the problem of the enormous foreign debt burden in the coun-

tries that represent potential growth markets for the U.S. Lastly, it should not contain specific commodity or bilateral import restrictions that would result in retaliation against U.S. exports, particularly of agricultural products.

In addition to these general objectives, Farm Bureau supports the following specific provisions of a trade bill:

(1) Deadlines in Section 301 (unfair trade) cases to prevent them from lasting several years due to foreign country foot-dragging.

(2) Changes in regulations defining the domestic industry in trade complaints to give producers of raw products legal standing in cases involving imports of processed products.

(3) Fast-track provisions under U.S. safeguard laws, consistent with our international obligations, to allow quick relief from injurious imports during a short U.S. marketing season for perishable commodities. A timetable goal for fast-track relief should not exceed seven days.

(4) Country-of-origin labeling for agricultural products at the retail level. Consumers currently have the right to know where nearly all retail products originated, with the exception of food products that are imported in bulk and then re-packaged or processed.

(5) Authority to the President to enter into trade negotiations for the purpose of, among other things, eliminating foreign unfair trade practices, improving GATT rules in agriculture, especially with regard to export subsidies, and improving the dispute settlement procedures. The Administration should not be given authority to swap increases, as opposed to reductions, in import restrictions with other countries.

(6) Authority to use export subsidies to gain access to markets we cannot penetrate due to foreign subsidized competition.

(7) Expanded use of P.L. 480 to permit the United States to continue to provide food assistance to needy countries and utilize our surplus commodity stocks.

(8) Aggressive agricultural market development programs utilizing sales missions, export credits, interest buydowns, innovative barter programs, use of Export-Import Bank financing and expanded funding for market development programs.

With respect to U.S. export programs, I would like to make one additional point. Many have argued that the U.S. needs a more comprehensive export subsidy program—because the current Export Enhancement Program is not effective. Farm Bureau believes U.S. export sudsidies should be used to counter foreign subsidized competition. The United States should not embark on an across-the-board export subsidy program along the line of the European Community's.

Still, we believe the current EEP system could be made to work more effectively if foreign policy considerations would not be allowed to get in the way.

Last year the United States offered an export enhancement initiative to sell wheat at world prices to the Soviet Union. The uproar was deafening. From within the United States, there were complaints of "subsidizing the Russians"—even though the prices offered were no lower than the Soviets would be paying on the open market. From other countries there were complaints of "stealing our markets"—even though those countries knew that our long-term grain agreement stipulated Soviet purchases of 4 million tons of wheat a year from the U.S., and at the time they had purchased only 150,000 tons.

As everyone knows, a U.S. sale never took place because the Soviets could still buy wheat at a lower price on the world market.

So far this marketing year, the European Community has sold over 5 million tons of heavily subsidized wheat to the USSR. The U.S. has sold none.

What our farmers wonder now is:

Where is the uproar in Europe over EC subsidies? The Soviet flour mill pays less than half for French wheat than does the French miller.

Where is the uproar from other wheat exporters? Last year Australia sent a high level delegation to the U.S. to protest the sale we never made.

Where is the uproar in the United States? If the U.S. shouldn't "subsidize the Russians," why should Europe?

The folly of the whole thing is that American farmers, who rely on exports for about one-third of their sales, are caught in the middle. Once again, much like a grain embargo, U.S. trade policy is taking a back seat to foreign policy considerations.

Our policy with respect to export subsidies should do three things: (1) neutralize the advantage of foreign subsidies in markets where U.S. products are trying to compete; (2) minimize the adverse impact on non-subsidizing countries; and (3) support efforts to achieve a phase-out of all export subsidies under the GATT.

To accomplish these objectives, the U.S. counter-subsidy program must be designed to work fairly automatically where foreign subsidies are identified and to

cease automatically when foreign subsidies cease. Farm Bureau is concerned that an across-the-board program might become as entrenched as the EC's and thereby accomplish none of these three objectives.

Farm Bureau requests that the Agriculture Committee take these views and concerns into account in helping to develop trade legislation that could determine the course of world trade for years to come.

STATEMENT OF ALLAN I. MENDELOWITZ, SENIOR ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee: We are pleased to be here to discuss with you our recent work in the agricultural trade area. My statement today will address our work on the Export Enhancement Program (EEP), the Foreign Market Development Cooperator Program, and bilateral long-term grain agreements and countertrade. Each of these export programs and activities are included in many of the agricultural trade legislation proposals being reviewed by this Subcommittee and the Congress. I will also focus on other major characteristics of these proposals.

EXPORT ENHANCEMENT PROGRAM

We have reviewed the EEP at the requests of Representative George Brown, Chairman, Subcommittee on Department Operations, Research, and Foreign Agriculture, House Agriculture Subcommittee; Senator Tom Harkin, Chairman, Subcommittee on Nutrition and Investigations, Senate Committee on Agriculture, Nutrition, and Forestry; and Senator Charles E. Grassley.

The EEP was originally established in May 1985 by the administration, following extensive lobbying by an informal coalition of agricultural trade organizations. It was modified in December of 1985 by the Food Security Act of 1985 and again by the Food Security Improvements Act of 1986. The Secretary of Agriculture is required to dispose of a minimum of $1 billion and a maximum of $1.5 billion in surplus agricultural commodities owned by the Commodity Credit Corporation. This amount is to be made available over a 3-year period ending in September 1988 as a bonus to U.S. exporters to expand sales of specified U.S. agricultural commodities in targeted markets. In practice, this bonus is a subsidy in kind which enables exporters to lower the price of their commodities to be competitive with subsidized foreign agricultural exports.

Many supporters of a subsidy program saw the EEP as a means of increasing U.S. exports, regaining lost U.S. market share, and disposing of the burgeoning surplus of U.S. wheat and other agricultural commodities. It was also viewed as a means of persuading the European Community to negotiate away its own export restitution program. The EEP was viewed by some as a bridge—a means of making U.S. prices more competitive during the period between the time of its establishment and the lowering of loan rates eventually mandated by the Food Security Act of 1985.

According to Agriculture, the EEP has been aimed at the European Community because it "directly" subsidizes exports. While Agriculture did consider targeting export markets of competitors that "indirectly" subsidize their exports—through low domestic transportation rates, for example—such proposals have not been approved. It is important to note, however, that International Wheat Council data show that while the U.S. share of the world wheat/wheat flour market, the primary focus of the program in practice, dropped from 44.8 percent to 29.0 percent from the 1981 to the 1986 crop year, the European Community's share increased only 3.8 percent (from 13.5 to 17.3 percent). Although Argentina, Australia, and Canada increased their market shares during this period, a deliberate effort has been made to protect the traditional markets of these "non-subsidizing" competitors.

ACTIVITY UNDER THE PROGRAM

As of March 6, 1987, 64 initiatives had been announced covering 40 countries and 12 commodities—wheat, wheat flour, rice, poultry, barley malt, semolina, eggs, dairy cattle, poultry feed, barley, and vegetable oil. EEP sales totaled about 9.1 mmt of wheat, 1.4 mmt of flour (grain equivalent), 2.8 mmt of barley, and lesser quantities of rice, poultry, barley malt, semolina, and dairy cattle. The sales value for these commodities totals $1.3 billion. As of March 9, the total market value of bonuses awarded was about $600 million.

While in fiscal year 1986, EEP sales represented only 3 percent of the value of total U.S. agricultural exports, EEP grain sales represented 12 percent of the total

volume of U.S. grain exports, and about 25 percent of the total volume of U.S. wheat and wheat flour exports. For the first 3 months of fiscal year 1987 EEP sales represented 36 percent of U.S. wheat and wheat flour exports.

Subsequent to the completion of our audit work in December 1986, the EEP has been expanded significantly, with wheat initiatives made to such countries as China, Iraq, Nigeria, and Poland. This broadening of the program will most likely result in Agriculture being able to dispose of $1 billion, and perhaps even $1.5 billion in commodities using market value. In addition, the expansion, due largely to continuing congressional and farm sector pressure in the light of dissatisfaction with U.S. agricultural export performance, has meant targeting markets where non-subsidizing competitors have had significant shares.

According to a letter from the U.S. Trade Representative dated January 30, 1987, the European Community has been, and continues to be, the principal target of the EEP. Agriculture officials maintain that the criteria for targeting countries under the program have not changed. Some observors indicate that the broadening of the program has resulted from decreased opposition by State, Defense, and Treasury to certain countries being targeted as recipients.

EEP AND THE SOVIET UNION

A controversial aspect of the EEP had been the administration's decision to exclude the Soviet Union from the EEP for foreign policy reasons, despite the fact that the European Community's share of the Soviet wheat market rose from 5 to 22 percent from the 1981 to the 1985 crop year.[1] While Agriculture claimed that Soviet Union was excluded because non-subsidizing competitors had a significant share of the market (about 48 percent for the year ending June 30, 1985), the same non-subsidizers had equal or greater shares of other markets targeted under the EEP.

On August 1, 1986, the administration announced that the Soviet Union was eligible to purchase 4 million metric tons (mmt) of wheat under the EEP, by far the largest initiative under the program. Agriculture officials stated that the initiative was designed to remove the Soviet excuse that price considerations prevented their fulfilling, for the second year in a row, a requirement of the Long Term Agreement with the United States that they purchase a minimum 4 mmt of wheat in each agreement year.

The August 1986 initiative to the Soviet Union expired September 30 with no sales made. Agriculture officials cited recent changes in Soviet contract terms as a major impediment to U.S. wheat sales under the EEP, but Soviet trade officials told us that U.S. prices still exceeded the "world price" despite the EEP initiative.

It should be noted that exports of U.S. wheat to the Soviet Union decreased dramatically from the 1985 to the 1986 crop year. There have been varying interpretations as to why the Soviets purchased only 0.15 mmt of wheat from the United States during the 1986 crop year and why they did not live up to the minimum purchase requirement of the Long Term Agreement with the United States for the agreement year ending September 30, 1985. Some grain trade representatives claimed that the Soviets did not do so because they believed they were discriminated against since they were ineligible for the cheaper wheat available through the EEP. Agriculture officials, however, believe that the Soviets did not buy the required amount because of lower prices elsewhere and that, even if the EEP did not exist, they would have bought elsewhere for price reasons. Soviet trade representatives, in fact, told us that they had stopped purchasing wheat from the United States in late 1984 because of the higher-than-market U.S. prices. They added that concerns over grain quality, reduced hard currency, and an internal reorganization in their bureaucracy also caused them to curtail U.S. wheat imports.

IMPACT ON U.S. EXPORTS

An exact measure of how much the EEP has increased U.S. exports of wheat and wheat flour worldwide, or even just to targeted markets, is difficult to determine because other factors influence the competitiveness of U.S. agricultural exports. One factor is the declining value of the dollar and another is the lower loan rates following passage of the Food Security Act of 1985. Both have been expected to increase the competitiveness of U.S. agricultural products and result in higher U.S. exports. Furthermore, given the multiple independent variables influencing trade in the agricultural commodities involved, it is difficult to develop a methodology to assess additionality.

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[1] Crop year is defined as the 12-month period ending September 30.

During the 1986 crop year, total world exports of wheat and wheat flour amounted to 86.6 mmt according to International Wheat Council data. This was a significant decrease from the 104 mmt for the 1985 crop year or the 99 mmt average for the last 5 crop years. The decrease of 17.4 mmt was about the same as the decrease in exports to the Soviet Union alone.

U.S. exports of wheat and wheat flour worldwide decreased from 38.2 mmt for the 1985 crop year to 25.1 mmt for 1986, 75 percent of the decrease in total world exports. The U.S. share of world wheat and wheat flour exports decreased from 36.7 to 29.0 percent. The U.S. share of exports to the Soviet Union decreased even more dramatically, from 22 percent to only 1 percent, during that same period (from 6.08 mmt to 0.15 mmt).

On the plus side, U.S. exports of world wheat and wheat flour increased to certain markets targeted under the EEP during the 1986 crop year. The largest increase, according to Agriculture statistics, was for wheat to Algeria, but there were also increases in wheat exports to Egypt, Turkey, Zaire, Jordan, and Yugoslavia and in wheat flour exports to Egypt, Yemen, the Philippines, Zaire, and Iraq. It should be noted that for many of the countries targeted under the EEP, the initiatives were announced late in the crop year and sales were not made until later. Consequently, there is a lag in the data and some increased exports will not be recorded until the following year.

U.S. exports of wheat to markets not targeted under the EEP during the 1986 crop year decreased significantly, with dramatic decreases occurring for the Soviet Union, Brazil, and China. Lower demand resulting from increased production and/or limited availability of foreign currency was responsible for these countries' decreased imports. Many specialists in the grain trade, however, believe that the decreased U.S. share of exports to these countries was due to price and quality factors.

Because the EEP has been expanded significantly in recent months, not only for wheat but for other commodities as well, and there is a lag time before any impact on exports may be seen, 1987 will better test whether the EEP has been effective in increasing U.S. exports. Nonetheless, the same analytical limitations outlined above will still be factors.

IMPACT ON EC

Although European Community officials openly criticized the EEP as an illegal subsidy program because it was targeted and, in their opinion, undercut world prices, the initial response of the Community to the EEP was a wait-and-see attitude. Later, however, the Community made a determined effort to protect what it considered its markets by providing increased and country-specific restitution (subsidy) payments for sales to countries targeted under the EEP.

European grain traders told us that the EEP had reduced European Community sales in the Mediterranean region. International Wheat Council data support this and reflect especially large decreases in Community wheat sales to Algeria and wheat flour sales to Egypt from the 1985 to 1986 crop year. The decrease in European Community worldwide wheat and wheat flour exports—from 17.1 mmt for the 1985 crop year to 15.0 mmt for 1986—occurred in the context of the overall decrease in world exports of 17 percent. The 1987 crop year will better test how much of the decrease in European Community exports was due to the EEP.

The ultimate impact of the EEP depends on how serious and sustained a commitment it represents. The United States did not renew the one-year U.S.-Egyptian Wheat Flour Agreement of 1983 under which it sold heavily subsidized flour to Egypt. Some European as well as U.S. government and private sector officials have contended that this demonstrated U.S. unwillingness to seriously challenge European Community agricultural export subsidies. U.S. policy has been criticized by the U.S. agricultural community as inconsistent and lacking in follow-up commitment.

IMPACT ON OTHER COMPETITORS

It appears that Argentina, Australia, and Canada have all been adversely affected by the EEP. These countries would be hurt if the effect of the EEP were to either lower the volume of their exports or the prices they receive. The administration repeatedly assured government officials of all three countries that the program would be implemented in a way that would maintain the traditional commercial trade volume of non-subsidizing competitors and obtained assurances from importing countries when applicable. Despite these assurances, the non-subsidizers became increasingly concerned with the broadening of the program and its overall related price impact. Their concerns became most vocal when the Soviet Union was targeted under the program in August 1986.

There is little evidence that EEP sales directly displaced the sales of Argentina, Australia, or Canada for the 1986 crop year. However, since the EEP did not begin selling in a major way until well into the 1986 crop year, any direct loss of market share would not become evident until the 1987 crop year. In any case, the EEP is viewed by many as having had a price depressing effect, in which case not only the Community, but all exporters, would have been adversely affected.

BUDGET NEUTRALITY AND EEP COST

Although the EEP was designed to be budget neutral, that is, it would not increase government outlays, we found examples in which individual EEP sales will likely result in higher government outlays. A few sales have released CCC commodities onto the domestic market which were greater than the commodities (or their equivalents) that were actually exported. For example, bonuses for EEP poultry sales released soybeans and corn on the domestic market which had a value greater than that of the soybeans and corn used in raising the exported chickens. As a result, in such circumstances, the government is likely to end up buying back at the loan rate an amount equal to the extra corn and soybeans originally given away as a bonus.

For poultry and dairy cattle, even if net additionality (the amount of new exports that result from the EEP) is 100 percent, unexported bonus commodities will be placed on the U.S. domestic market and will likely increase CCC expenditures. For other commodities, there will be additional budgetary expenses if more bonus commodities are released from CCC stocks than U.S. exports increase. While net additionality cannot at this point be measured, the EEP flour, barley, and barley malt sales are also likely to be budgetarily expensive.

Agriculture's view is that it is acceptable for specific EEP sales to violate the budget neutrality condition as long as the program as a whole does not. However, in the case outlined above, while poultry and dairy farmers may benefit, releasing feedgrains onto already surplus domestic markets is detrimental to those markets. The Food Security Act of 1985 directs Agriculture to attempt to make 15 percent of the EEP-subsidized sales in poultry, meat, and meat products. Sales of these commodities have involved large bonuses. Consequently, Agriculture faces potentially conflicting goals in meeting the 15 percent animal product export goal while minimizing the adverse budgetary impacts and disruptions of commodity markets that would follow from large-scale EEP exports of these products.

EXPORT ENHANCEMENT PROGRAM CONCLUSIONS

Exports of wheat and wheat flour have increased for several markets targeted under the EEP during the last year, but these have been offset by decreased exports to other markets, especially the Soviet Union. Increases in exports to the targeted markets probably can be attributed largely to the fact that the EEP, coupled with sufficient export credit guarantees, was available. It is clear that the targeted importing countries have been beneficiaries under the EEP as they have received wheat and other agricultural commodities at lower prices.

The design of the EEP restricted its effectiveness in substantially increasing U.S. exports. The program was targeted against the European Community, not against all U.S. competitors and, consequently, the number of markets that could be targeted was limited. Efforts were made not to harm the countries identified as non-subsidizers even though these countries had increased their shares of particular markets at least as much as the European Community. Furthermore, the Soviet Union, the largest importer of wheat and a market in which the European Community had significantly increased its share, was not made eligible for foreign policy reasons until August 1986, and then for only 2 months instead of the usual one year and with bonus amounts prescribed at relatively low levels.

Although the EEP in its restricted form appears to have increased selected U.S. agricultural exports in many targeted countries, there is little reason to believe that once the EEP expires, these gains in U.S. agricultural exports will be sustained in targeted markets without fundamental changes in the market. Although the decline in the value of the dollar and lower loan rates may make the price of U.S. wheat more competitive in the international marketplace, it is extremely doubtful that U.S. wheat flour, poultry, or dairy cattle, for example, could be exported at competitive prices once the subsidy program expires without major changes in the European Community's subsidy policies.

We believe that the EEP, combined with the dollar's decline and lower loan rates, has increased the financial cost of the European Community's Common Agricultural Policy, particularly through increased subsidy payments, and has contributed to re-

alizing agreement to include agricultural subsidies in the new round of multilateral trade negotiations under the General Agreement on Tariffs and Trade.

The current subsidy war between the United States and the European Community is a major factor in unsettling the world market. Broadening the EEP to other markets by making it an across-the-board program would eliminate charges of discrimination by traditional buyers and would increase competition and pressure on the European Community, but it would further antagonize non-subsidizing exporters who already are critical of the targeted program for undermining the world price structure. Furthermore, making the EEP an across-the-board program raises the question as to whether the $1.5 billion in CCC stocks authorized in legislation would be sufficient.

The world agricultural market is experiencing a major change, as reflected in the tremendous overproduction and surpluses of major crops throughout the world. U.S. and European Community pricing policies, accelerated adoption of improved technology, and increased emphasis on agricultural self-sufficiency in developing countries, have increased agricultural production worldwide. Countries which were once net agricultural importers have become net exporters. Additionally, developing countries faced with widespread economic problems are importing less food and feed grains. These changes in the world market require major modifications in agricultural policies and programs of traditional agricultural producers and exporters, such as the United States and the European Community. While the need for major changes in the farm policies and programs of these countries is great, little change has yet taken place as their governments continue to try to adjust programs suited to a different era. The EEP is in essence a bridge program at best. The program as implemented deals with the symptoms, not the fundamental causes, of the problems facing U.S. agriculture. Although the EEP may have some effect in encouraging the Community to negotiate, it does not increase world demand for exports in a period of overproduction and surpluses. More fundamental changes are needed to restore equilibrium.

FOREIGN MARKET DEVELOPMENT COOPERATOR PROGRAM

The Agriculture Trade Development and Assistance Act of 1954 (Public Law 480), as amended, and the Agriculture and Food Act of 1981 (Public Law 97-98), as amended, authorized market development activities and the use of federal funds to develop, maintain or expand foreign markets for U.S. agricultural commodities. FAS administratively determined that this should be accomplished through private, non-profit agricultural organizations, known as cooperators, who should be required to share jointly in the financial expense of the market development programs. Cooperator programs usually fall into three categories: trade servicing, technical assistance, and consumer promotion. Activities and programs are geared to increasing consumer and commercial uses of U.S. agricultural products and developing long-term markets rather than achieving immediate sales of agricultural products.

In fiscal year 1986, cooperators expended $39.7 million of FAS funds on the market development program. Cooperators reported contributions of $35.9 million and credited foreign third party interests with contributing $48.8 million. Cooperators conducted approximately 5,500 individual market development activities in 132 countries.

FAS has stated that the market development program has played an important role in increasing U.S. agricultural exports from $3 billion in its inception in 1955 to approximately $26 billion in fiscal year 1986.

The Congress established a broad goal for market development programs—develop and expand foreign markets for U.S. agricultural commodities—and provided general program direction to FAS. The Congress also gave FAS broad discretion in establishing program and financial parameters. Consequently, cooperators implement numerous and varied market development activities.

FAS continues to fund the cooperator's programs without critically assessing what results are achieved or how well. FAS planning and evaluation methodologies, including base evaluations and annual program evaluations, are insufficient to fully determine which market development activities are effective and which need to be refined or terminated.

FAS guidelines encourage the cooperators to contribute annual amounts equal to or greater than the FAS funds authorized by the project agreement but do not require cooperators to contribute. The FAS guidelines define contributions based on their source (who provides the contribution) rather than on the type of contribution (cash or goods and services). Thus, cooperator cash contributions, as defined by FAS, consist of some cash but primarily of goods and services rendered through U.S.

headquarters offices in support of marketing activities. These cash and goods and services contributions represent the cooperator's match of FAS funds awarded in project agreements. FAS funds the major share of the direct costs of the cooperators' overseas market development programs; cooperators pay for some overseas expenses, for example, salaries of personnel conducting the activities. FAS also pays for most of the cooperators' indirect overseas expense, such as rent and utilities. Furthermore, FAS has no assurance that cooperator contributions adhere to FAS guidelines that they be in addition to activities the cooperators would have conducted without the FAS funded market development programs and that they relate to an FAS-approved activity.

MARKET DEVELOPMENT CONCLUSIONS

Public Law 480 and amendments to this law emphasized the importance of developing and expanding foreign agricultural markets. The legislative history contains no indication as to how this goal was to be achieved. FAS made administrative and financial determinations as to program implementation but put few restrictions on the total funding a cooperator can receive for a specific program, how long a cooperator can receive funding for that program, or what constitutes a successful program.

FAS planning and evaluation strategies, including the benefit-cost ratios calculated by cooperators and intended by FAS to help measure program effectiveness, use overly optimistic assumptions about the market situation. FAS has conducted just 19 annual evaluations, a small number considering that it funds over 1,200 country programs each year. Further, some annual evaluations misstate the results and exaggerate the outcome of the program.

We analyzed the market development plans, end-of-year reports, and income statements of various cooperators and found that, for the most part, cooperator contributions to the programs are primarily goods and services contributions rather than cash contributions as the FAS title "cash contribution" would indicate. Cooperators state that these goods and services contributions represent cash expenditures in support of approved marketing activities. FAS officials said that they do not scrutinize cooperator contributions carefully and have little assurance that they are accurately reported. Thus, we believe that the FAS data indicating that there is about a one-third sharing of program costs among FAS, cooperators, and foreign third parties, conveys the impression that cooperators are financing the program more fully than actually occurs. FAS is paying the majority of the direct and overseas costs of the program and assuming all the financing risk.

MARKET DEVELOPMENT RECOMMENDATIONS

We recommend that the Secretary of Agriculture direct the Administrator of FAS to take the following actions.

Clarify cooperator program goals and establish standards or limits on total funding levels per program and timeframes for individual program funding.

Revise FAS guidelines to require the inclusion of measurable goals in cooperator market development plans and/or activities to facilitate effectiveness evaluations and track activity results.

Revise FAS guidelines to define program contributions in terms of source, rather than in terms of cash and goods and services.

Furthermore, we recommend that the Secretary of Agriculture, consider, and report to the Congress, the possibility of redirecting some USDA resources to FAS' Compliance Review Staff to allow more complete review of cooperator compliance with FAS guidelines.

ALTERNATIVE GRAIN TRADING PRACTICES: LONG-TERM BILATERAL GRAIN AGREEMENTS AND COUNTERTRADE

Our review is in response to increased congressional interest in pursuing alternative grain trading practices as a means of increasing U.S. grain exports. During the 99th session of Congress, members urged the administration to explore the possibility of expanding bilateral grain agreements and bartering U.S. grain abroad. The Food Security Act of 1985 provides for a pilot barter program and specifically requires that the U.S. Department of Agriculture carry out at least two projects with nations experiencing food and currency reserve shortages during fiscal years 1986 and 1987. Furthermore, numerous agricultural trade bills were introduced during the 99th Congress, many of which included some requirement for the U.S. govern-

ment to pursue alternative agricultural trading approaches. Interest in such practices continues to grow in the current Congress.

Long-term bilateral grain agreements are used most extensively in countries where the government is directly involved in agricultural production and marketing. Three of our four principal grain competitors—Argentina, Australia and Canada—have government owned enterprises that play a major role in their grain trade. They have used long-term bilateral agreements more extensively than the United States in attempts to both maintain and expand their market shares. Our findings indicate that in the 1980's, the minimum purchase volumes specified in foreign bilateral agreements represent a little over 20 percent of wheat and coarse grain traded on the world market. Since 1983, minimum wheat and coarse grain export volumes listed under such agreements accounted for, on average, 40 percent of their total grain exports compared to a 14 percent average for minimum wheat and corn exports specified under U.S. bilateral grain agreements.

Many U.S. and foreign officials acknowledge that long-term bilateral grain agreements have declined in importance as a result of a buyer's market in world grain trade over the last few years. Despite a slight decrease since 1985, due in large part to the oversupply of grain in the world market, the use of long-term bilateral grain agreements by major U.S. competitors remains an important aspect of international grain trade.

Historically, the United States has opposed long-term agreements on the grounds that they run counter to free trade policies and represent a significant non-competitive trade practice. Nonetheless, the United States has entered into such agreements with the Soviet Union and China to provide grain over extended periods through the private sector at prevailing market prices. These exceptions were made to (1) establish a mechanism for close communication on agricultural trade with these countries; (2) minimize the occurrence of large unexpected, erratic, and disruptive sales; (3) stabilize U.S. domestic prices; and (4) develop an expanding agricultural export market.

From 1976 to 1981, minimum grain quantities specified under these long-term bilateral grain agreements represented less than 10 percent of total U.S. grain exports. Since 1981, the minimum amounts have represented significantly larger percentages of total U.S. grain exports; however, this has occurred during a period of overall decline in U.S. grain exports. If actual sales occurring under the agreements are examined instead of agreement minimums, the bilateral grain exports under these agreements reach 19 percent of total grain exports. This is due largely to Soviet grain purchases that in some agreement years far exceeded total quantity minimums.

Our analysis shows that some foreign competitors have used countertrade to export grain, primarily to developing countries and the Soviet bloc. Among the documented countertrade cases involving grain transfers on which we found information, only one out of the 21 involved the United States. As of January 1987, the United States has not initiated any pilot barter projects as required by the Food Security Act of 1985. Agriculture officials informed us that compliance has been hampered by the requirement that the barter be initiated with a less developed country which has limited foreign exchange and which also has a strategic mineral we need in our stockpile. Meetings among officials from Agriculture, the General Services Administration, and the Department of Energy have not been successful in producing agreement on a means for complying with the provisions of the law.

In short, other countries have used both bilateral agreements and various forms of countertrade as agricultural trading tools in the midst of increasingly competitive world market conditions, large foreign debt, and hard currency shortages faced by the less developed countries. Recent trends indicate that world agriculture trade will witness continued usage of both bilateral agreements and countertrade as alternative means to stimulate exports.

U.S.-SOVIET GRAIN AGREEMENTS

The first U.S.-Soviet bilateral grain agreement was in effect from October 1, 1976 to September 30, 1981. Under this agreement, the Soviets would purchase annually at least 6 mmt of U.S. wheat and corn in approximately equal proportions, at market price, for a 5 year period. Moreover, the Soviets could purchase an additional 2 mmt of grain without consulting the U.S. government unless U.S. carry over and forward grain estimates were less than 225 mmt. The agreement stipulated that sales were to be made from U.S. private commercial sources at the market price prevailing at the time of the purchase. Consultations to discuss the implementation of the agreement were required every 6 months and whenever either party wished

to buy or sell over the 8 mmt, agreement maximum. The Soviets were also required to space their grain purchases as evenly as possible throughout each year; moreover, all grain purchased from the United States was to be used only for domestic consumption. This first agreement was extended twice beyond the lapse date of September 1981; each time for an additional year covering the period from October 1981 to September 1983.

The Soviet purchases exceeded the 6 mmt minimum specified in the 1976 agreement and, in several of the years actually totaled two or three times the minimum. In those years, U.S. grain exports to the Soviets represented a significant percentage of total U.S. grain exports; however, the minimum agreement amounts themselves represented less than 10 percent of total annual U.S. exports.

Soviet purchases of U.S. grain were adversely affected between January 1980 and March 1981 by the U.S. grain embargo imposed by President Carter in response to the Soviet invasion of Afghanistan. During this period, total Soviet grain purchases were limited to 8 mmt, the maximum quantity specified in the 1976 agreement. The embargo effectively stopped the export of 17 mmt of U.S. grain which the Soviets had planned to purchase prior to the embargo announcement. The Soviets, facing a poor harvest, immediately sought alternative wheat and corn suppliers. Other major grain producers—Canada, Australia, Argentina, and the EC—expanded their own production and gained in the Soviet grain market during this period. As a result, the embargo affected the United States' reputation as a reliable grain supplier and contributed to the loss of Soviet grain market share to major competitors. Despite the current administration's termination of the embargo in April 1981, the United States has not been successful in regaining its lost Soviet wheat market shares. The U.S. share of Soviet wheat imports was 65.5 percent in 1978/79; the highest share since the embargo termination was 31.5 percent in 1981/82. U.S. wheat market shares have dropped consistently since 1983/84 to 1.3 percent in 1985/86. The U.S. share of Soviet coarse grain imports was 83.3 percent in 1978/79; this has averaged 55 percent since 1983.

The second five-year grain agreement with the Soviets was initiated in 1983 and contained many of the same conditions as the previous 1976 agreement concerning the spacing of purchases, re-export restrictions, semiannual consultations, and purchase prices. New features included (1) a 9 mmt annual purchase quantity of wheat and corn, with minimum quantities of wheat and corn at 4 mmt each, (2) the ability of the Soviets to substitute soybeans and/or soybean meal in the ratio of 1 ton of soybeans for 2 tons of grain, and (3) the ability of the Soviets to purchase annually an additional 3 mmt of grain without prior consultations. In July 1986, the Soviets stated their intent to add new grain quality provisions to all grain purchase contracts; these provisions would allow them to reject shiploads of grain or withhold up to 5 percent of the total payment if Soviet officials determine grain imports to be of an unacceptable quality.

In 1983/84, under the second agreement, Soviet purchases significantly exceeded the minimum quantities. In 1984/85, total grain purchases were twice the minimum quantity; however, this was due to unusually large corn purchases as wheat purchases actually fell below the required 4 mmt portion. In 1985/86, the Soviets did not adhere to either the required total grain purchase amount or the minimum wheat portion. With the large overall Soviet purchases during 1983/84 and 1984/85, grain exports under this bilateral agreement represented a sizable percentage of total U.S. grain exports.

Since 1984, the Soviets have been reluctant to buy minimum quantities of U.S. wheat under the 1983 agreement due to large variances between the U.S. and world market prices. The Soviets have been successful in buying wheat on the world market from foreign competitors at prices well below those offered by U.S. supplies. Since the agreement merely stipulates that sales are to be made at "prevailing market prices," the Soviets have interpreted this phrase to mean world market prices, while the U.S. position is that the wording refers to U.S. domestic prices.

U.S.-CHINA GRAIN AGREEMENT

The 4-year U.S.-China grain agreement beginning in January 1981 required annual grain purchases between 6 and 8 mmt of wheat and corn, with corn representing 15 to 20 percent of total sales. The PRC could purchase 1 mmt over the maximum of 8 mmt without prior notice, but any purchases over 9 mmt required advance notification. Transactions were to be made at prevailing market prices in accordance with commercial terms. In addition, the agreement contained an escape clause that released the United States from selling the minimum quantities by virtue of "exceptional circumstances." However, the reductions were to be propor-

tional to U.S. grain exports to all other customers and to grain purchased from other foreign suppliers by the PRC.

U.S. grain exports to the PRC under the agreement were above maximum levels during the first two years of the agreement. However, these sales dwindled significantly during the final 2 years to less than half prior year purchases and well under total minimum quantities.[2] It is generally believed that unexpected increases in Chinese grain production and problems between the United States and China over textile imports resulted in the Chinese not buying large quantities of grain under the agreement and ultimately not renewing it. More recently, Chinese concerns over the price and quality of U.S. grain have resulted in reduced purchases.

SUMMARY OF U.S. EXPERIENCE

Until 1981, minimum grain export quantities required under long-term bilateral grain agreements represented under 10 percent of total U.S. grain exports. After 1981, the minimum amounts represented significantly larger portions of U.S. total grain exports, but this was occurring during a period of declining U.S. grain exports. In years when Soviet purchases far exceeded total quantity minimums (1977/78, 1978/79, 1981/82, 1983/84, and 1984/85), the bilateral grain sales represented significant percentages of overall U.S. grain exports.[3]

During 1983 to 1986, minimum grain export quantities specified under long-term bilateral grain agreements of major foreign grain exporters (Australia, Argentina, and Canada) represented, on average, approximately 40 percent of their total grain exports. In comparison, for the same timeframe, minimum grain export quantities specified under U.S. agreements represented only 14 percent of total U.S. grain exports. In short, minimum purchase quantities under the three U.S. long-term bilateral grain agreements represent a much smaller proportion of its total grain exports than those in agreements of major foreign exporters.[4]

U.S. EXPERIENCES IN COUNTERTRADE

The United States officially opposes government-mandated countertrade because it is contrary to current U.S. trade policy and support for the multilateral trading system. Nevertheless, Congress recently has supported the use of voluntary barter/countertrade for expanding the U.S. share of the international grain market. As stated in the Food Security Act of 1985, barter is considered an effective secondary method of reducing excess supplies of agricultural commodities and adding needed strategic and critical materials to the National Defense Stockpile.

The U.S. government has in fact used countertrade to dispose of surplus agricultural commodities through the barter program of 1950–73, and the United States-Jamaica barter agreements of 1982 and 1983. In addition, the U.S. government does not oppose the use of countertrade by the private sector, unless such use could have a negative impact on national security. In fact, the government provides advisory services and market information to prospective U.S. exporters who want to use countertrade.

THE BARTER PROGRAM OF 1950–73

The Barter Program of 1950–73 authorized the Secretary of Agriculture to reduce inventories of surplus agricultural commodities owned by the Commodity Credit Corporation (CCC) through barter agreements to obtain strategic and critical materials for the National Defense Stockpile or to obtain foreign-produced supplies and services for U.S. agencies operating abroad. According to the USDA, "barter is a CCC program that utilizes exports of U.S. agricultural commodities to generate funds for acquisition of goods and services overseas to meet requirements of U.S. government agencies and to procure strategic materials for stockpiling."

From 1950 to 1954, very little happened in the barter program. From 1954 to 1962, it was used to exchange CCC-owned agricultural commodities for strategic materials. By 1962, stockpile goals were decreased, and the program shifted to the barter

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[2] Only in 1982 did the PRC meet both the total grain purchase minimum (6 to 8 mmt) and the provision that of this total amount, 15 to 20 percent would be corn (0.9 mmt to 1.2 mmt).

[3] Even though overall Soviet grain purchases exceeded the total minimum quantities specified in the agreements for these years, required minimum quantity purchases of wheat were not met for some years.

[4] It is difficult for GAO to obtain data on *actual* grain sales made under the long-term bilateral grain agreements of foreign competitors. However, attempts are continuing and, where obtainable, will be included in a forthcoming GAO report on foreign use of long-term agreements.

of agricultural commodities for (1) foreign-produced supplies and services for overseas military installations and (2) projects of the Agency for International Development (AID). The program was suspended in 1973 when CCC stocks were largely depleted, stockpile goals changed, and the strong foreign commercial export market no longer justified the need for a barter program.

The three objectives of the program were (1) disposal of surplus U.S. agricultural commodities, (2) acquisition of strategic material for the National Defense Stockpile, and (3) acquisition of goods and services "offshore" that were needed by U.S. development programs or for military purposes. The value of the agricultural commodities exported from 1950 to 1973, based on export market value, was $6.65 billion. Despite these successes, there were problems with the program. Negotiations were complex and time-consuming. In addition, there were concerns that commodities were resold, thus displacing cash sales, and that the program, in essence, was providing subsidies to exports.

U.S.-JAMAICA BARTER AGREEMENTS

On February 25, 1982, the United States signed two barter agreements with the Bauxite and Alumina Trading Company, Ltd (BATCO), of Jamaica. The first agreement, signed by the CCC and BATCO, was for the exchange of 400,000 tons of Jamaican bauxite for 7,238 metric tons of nonfat dry milk and 1,905 metric tons of anhydrous milk fat (oil). The total value of the agricultural commodities was estimated at $13 million. The second agreement, signed by the General Services Administration (GSA) and BATCO, was for the exchange of 1.2 million tons of Jamaican bauxite for cash and excess stockpile materials (tin and tungsten).

According to a CCC official, the agreements were a success in a number of respects. First, the U.S. stockpile inventory for bauxite was below the desired level. Second, Agriculture was able to barter dairy products that it would not have been able to sell otherwise. Third, it promoted regional policy goals.

There were a number of problems with the agreements, however. First, a considerable amount of time was spent finding a material or commodity at acceptable prices to which Jamaica would agree. Second, determination of the value of the bauxite was problematic. Third, there was a lack of competitive market conditions in the negotiations; since Jamaica knew that President Reagan had announced the exchange, it "struck a hard bargain" during negotiations.

On November 17, 1983, a third agreement was signed with BATCO exchanging dairy products for 1 million tons of bauxite for the National Defense Stockpile. The total value of all the agreements with Jamaica was $47 million.

ADMINISTRATION TASK FORCES

The current administration has formed at least two groups to debate the issue of countertrade, the Inter-Agency Working Group of the Trade Policy Review Group (chaired by the U.S. Trade Representative) and the Working Group on Barter (chaired by Agriculture). This latter group is the administration's most recent response to the barter issue.

The Inter-Agency Working Group reviewed countertrade and barter in 1983 to create a government consensus and policy on the matter. The group concluded that the U.S. government generally views countertrade as contrary to an open, free trading system. However, as a matter of policy, it will not oppose U.S. companies' participation in countertrade arrangements unless such action could have a negative impact on national security. Thus the U.S. government will provide advisory and market intelligence services to U.S. businesses, including information on the application of U.S. trade laws to countertrade goods; continue to review financing for projects containing countertrade on a case-by-case basis, taking account of the distortions caused by these practices; continue to oppose government-mandated countertrade and will raise these concerns with the relevant governments; participate in reviews of countertrade in the International Monetary Fund, the Organization for Economic Cooperation and Development, and the General Agreement of Tariffs and Trade; and exercise caution in the use of barter authority, reserving it for those situations which offer advantages not offered by conventional market operations.

The Working Group on Barter (WGOB) established in January 1984 by an executive order, was charged with determining whether a particular countertrade proposal was in the best interest of the country. According to an official statement on the WGOB, "the barter review process will assure that barter proposals will receive attention at not only the requisite departments/agencies, but at the highest levels of government."

According to a USDA official, the working group has considered two countertrade proposals: (1) a Mexican proposal to exchange fluorspar for CCC dry milk, and (2) a Department of Defense (DOD) proposal to exchange U.S. scrap metal for materials needed for the National Defense Stockpile. In both cases, the proposals were rejected, although DOD actually withdrew its proposal due to the time-consuming review process. At present, the WGOB has disbanded in accordance with a National Security Council directive calling for the disbandment of all groups conducting work related to the National Defense Stockpile.

PILOT BARTER PROVISION

Section 1129 of the Food Security Act of 1985 provides for a pilot barter program to be carried out during fiscal years 1986 and 1987. The program, to be carried out with at least two nations which have food and currency reserve shortages, calls for the barter of surplus CCC commodities for strategic or other materials that the United States does not produce domestically in amounts sufficient for its requirements and for which national stockpile reserves or goals established by law are unmet. Normal commercial trade channels must be used and commercial marketings must not be disrupted.

Section 1167 of the Food Security Act of 1985 amends the CCC Charter Act to provide that if the strategic petroleum reserve falls below prescribed levels, and upon request from the Secretary of Energy, the CCC must, to the maximum extent practicable and with approval from the Secretary, make available CCC commodities worth at least 300 million to barter for petroleum products (including crude oil). This section also requires the Secretary of Agriculture to provide technical assistance relating to bartering of agricultural commodities and products to U.S. exporters who request such assistance.

As reported to Congress on January 2, 1987, by the Secretary of Agriculture, no agreements have been concluded for the pilot barter program. Agriculture stated in its report that it intends to continue with efforts to initiate substantive discussions with several countries having food and currency reserve shortages which offer potential for obtaining strategic minerals.

In more recent discussions with Agriculture officials, they reiterated that the Department could not report any progress on barter initiatives; however, they emphasized their commitment to complete the projects. Complications regarding division of program authority, agency coordination, and reimbursement between federal agencies involved in potential barter transactions have contributed to the lack of action. Additionally, there have been problems in identifying the appropriate combination of eligible countries and acceptable commodities. Agriculture officials reported that they had met on several occasions with Energy and GSA representatives without successfully reaching agreement on a means for carrying out the provisions of the law.

ALTERNATIVE AGRICULTURAL TRADE LEGISLATION PROPOSALS

Before addressing alternative agricultural trade legislation proposals, we would like briefly to focus on selected trade provisions of the Food Security Act of 1985.

The Food Security Act of 1985 was signed into law on December 23, 1985. Its extensive trade title contains a number of provisions designed to counter foreign subsidized sales, develop new markets, and provide food assistance to developing countries. It includes reauthorizing such long-standing export assistance programs as Public Law 480 (Food for Peace) and establishing new efforts such as the Targeted Export Assistance Program. It also provides continued support for several export assistance programs such as short-term export credit guarantees (GSM-102) and the Export Enhancement Program. In addition, the law mandates an intermediate credit guarantee program, a new export assistance program to promote the export of meat and dairy animals, and a pilot barter program. Within Agriculture, the Foreign Agricultural Service (FAS) has the lead role in developing and executing the programs and initiatives outlined by Congress in the trade title.

The Food Security Act of 1985 authorized the lowering of loan rates and the establishment of marketing loan programs. Both of these initiatives are designed to enhance the competitiveness of U.S. agricultural commodities overseas. Although the Secretary has used his discretionary authority to establish marketing loan programs for rice and cotton, he has resisted inclusion of wheat, corn, and soybeans principally because of budgetary implications. The Secretary was also provided in the Act with considerable discretionary authority in implementing the Export Enhancement Program.

The Secretary of Agriculture, it should be noted, has considerable latitude under other existing authority to initiate many export promotion and market development activities under the proposed legislation we are discussing today. For example, the Secretary has broad discretionary authority in the management of the Foreign Agricultural Service's foreign market development activities.

In addition, the administration has the authority, under existing trade law, to respond to unfair trade practices of foreign governments. The administration launched a more activist effort at resolving Section 301 cases in October 1985. This effort is aimed at combating unjustifiable and unreasonable import restrictions by foreign countries, particularly agricultural related restrictions of the European Community.

It should be noted that agriculture is a major issue in the current Uruguay round of multilateral negotiations at which the United States is seeking improved market access; commitments to freeze the present level of export subsidies and eventually to phase them out; and minimization of the adverse effects that sanitary and phytosanitary barriers can have on trade. Our 1985 report on issues to be addressed by the United States in the GATT provides a detailed analysis of agricultural trade problems.[5]

In the administration's proposed trade bill (Trade Competitiveness Act of 1987), there was no title for agricultural trade. However, the titles that deal with trade matters as a generic issue can be applied to agriculture. According to administration officials, adequate authority existed under the Food Security Act of 1985 and other laws to sufficiently represent agricultural trade interests.

We would now like to address the first of several major proposed alternatives. Title VII of S. 490 (Senate Omnibus Trade Bill) and S. 512 (Agricultural Competitiveness and Trade Act of 1987) are identical. Title VII provides a framework for improved management of export promotion and foreign market development activities. More emphasis on market development, coordination of existing and newly established programs and activities, better program evaluation, greater flexibility in the use of agricultural attachés, more emphasis on new markets and value-added commodities, an expanded effort to respond to product quality problems, and an establishment of a broad-based publicly accessible export market development advisory committee appear to be a positive response to increasing foreign competition. Proposed funding increases for trade shows and exhibitions, for general management support of export programs, and for additional personnel seem appropriate, if after close analysis of existing resources, it is found that such resources, even through budgetary shifts and reprogramming, are inadequate. It is clear that the many new export programs of the 1985 Food Security Act have challenged the adequacy of existing FAS resources.

We also believe the general negotiating objectives of the title—to eliminate trade barriers, clarify GATT rules for agricultural trade, and address export subsidies—are consistent with our current trade policy objectives and are responsive to the major agricultural trade problems identified earlier in our statement. We would like to underscore the importance of reciprocal reductions in agricultural subsidies in any multilateral negotiations.

The proposed use, in Title VII, of CCC commodities by cooperators for demonstration projects raises some questions. There are limitations to the use of these commodities and it is unclear how many cooperators could participate in such projects.

Title VI of H.R. 3, the omnibus House trade bill, calls for an extensive reorganization of the U.S. agricultural trade apparatus in the executive branch. Many of its proposed changes are consistent with the July 1986 report of the National Commission on Agricultural Trade and Export Policy. Some of the more significant changes incorporated into this bill include:

designation of the Department of Agriculture as the lead U.S. agricultural trade agency;

reorganization of the Department of Agriculture by providing for Presidentially appointed positions of Undersecretary of Agriculture for Trade and International Affairs, Under Secretary of Agriculture for Commodity Programs and up to two additional assistant secretaries to assist the two new Under Secretaries;

transfer of the International Economics Division of the Economic Research Service (ERS), and the World Agricultural Outlook Board, to the Foreign Agricultural Service, and the establishment of a Commodity Division to promote value-added ag-

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[5] *Current Issues in U.S. Participation in the Multilateral Trading System*, (GAO/NSIAD-85-118), September 23, 1985.

ricultural products not covered by cooperator agreements and help develop cooperator organizations;

establishment of a General Sales Manager's Office under the Under Secretary for Trade which would be responsible for all program development, and management of agricultural trade officers overseas;

establishment of an office to monitor trade practices under the Under Secretary for Trade to study trade practices of other nations and promote U.S. exports;

establishment of an office to provide assistance to victims of unfair trade practices;

establishment of an Office of Agricultural Trade Policy, Planning and Evaluation under the Under Secretary for Trade to develop long-term agricultural trade strategy reports;

use of food aid and related economic assistance programs to develop U.S. markets;

development of an annual reprot on the extent food aid and agricultural assistance served market development objectives;

establishment of an office of Food Aid Policy under the direction of the General Sales Manager;

making available to cooperator organizations commodities owned by the CCC to expand markets for U.S. products;

expansion of the Export Enhancement Program to give priority to all interested foreign purchasers who traditionally purchase U.S. agricultrual commodities; or those who begin or continue to purchase quantities equal to or greater than the level of purchases of previous years, and provide every 30 days to apropriate committees, a current list of countries and products and a justification for their participation; and

asking the Secretary of Agriculture to expedite the barter provisions of 1985 Food Security Act.

In summary, the agriculture title of the House trade bill significantly restructures and reorients the U.S. agricultural bureaucracy in an effort to improve U.S. competitiveness abroad. Such a major reorganization should be undertaken only after a thorough impact analysis that clearly addresses the costs and the benefits of such a major change. Because of its comprehensive nature, many agencies, interest groups, and U.S. policies will be affected, raising serious questions about the practicality and desirability of such an ambitious legislative proposal.

Another alternative legislative proposal advanced in the Senate is S. 310, the Agricultural Export Enhancement Act of 1987. Similar to H.R. 3, S. 310 would broaden the spectrum of countries eligible under the Export Enhancement Program. However, S. 310 provides a detailed and complex methodology for determining which countries would be eligible, and how bonus commodities would be allocated. Both H.R. 3 and S. 310 raise questions concerning the cost of an expanded export bonus program and its impact on the U.S. and world market, U.S. trade relations with other countries, and U.S. negotiations in the current round of multilateral trade discussions.

In summary, two of the three legislative proposals modify the Export Enhancement Program. Neither one proposes increasing the value of bonus commodities to be used annually. Targeting criteria would be substantially broadened as compared to the existing program. With the recent expansion in EEP activity, it is probable that the maximum allocation of $1.5 billion in CCC commodities over 3 years will be used. If a broadening of criteria were adopted, the existing authorization would most likely be inadequate. Furthermore, an increase in commodities released by the CCC could also cause budgetary outlays.

Mr. Chairman, let me close by reiterating that the Food Security Act of 1985 and the existing trade legislation provide considerable discretionary authority for the Administration to develop a more assertive agricultural trade policy and programs if it wishes. On the other hand, if it does not exercise that authority, specific legislation could require it.

Mr. Chairman, this concludes my statement. I'll be happy to answer any questions you may have.

TESTIMONY OF

BART S. FISHER

BEFORE THE

SUBCOMMITTEE ON DOMESTIC AND FOREIGN

MARKETING AND PRODUCT PROMOTION

OF THE

SENATE AGRICULTURE COMMITTEE

March 12, 1987

I. Introduction

Mr. Chairman:

My name is Bart S. Fisher. I am a partner in the law firm of Patton, Boggs & Blow in Washington, D.C. and Professorial Lecturer in International Relations at the Johns Hopkins School of Advanced International Studies.

I am delighted to be here to address the changes in the foreign trade laws of the United States needed to promote U.S. agricultural exports. Other witnesses far more qualified than I will address the parlous condition of U.S. agricultural exports. Their decline is unquestionably a key component of the overall U.S. trade deficit of $170 billion in 1986.

My area of interest and, hopefully, expertise, resides in use of the legal tools available to promote U.S. agricultural exports, and I will address that subject this morning. The key legal mechanism that can permit U.S. farmers to assert their right to export when acts of foreign governments limit U.S. commerce is Section 301 of the Trade Act of 1974. As such, it is the legal armor for U.S. agricultural interests seeking to do battle in the world marketplace. One aspect of the increasing neo-mercantilism now characterizing international economic relations is the desire of many governments to create a trade surplus by limiting imports through tariff and nontariff barriers. Another aspect of this mercantilism is the increasing subsidization of exports. In macroeconomic terms, these two limitations particularly afflict U.S. agricultural exports, which are being kept out of many foreign markets by import limitations and via displacement due to export subsidization.

My thesis this morning is that Section 301 of the Trade Act of 1974, as amended, is <u>not</u> working as effectively as it should be to promote U.S. agricultural exports, and requires four key structural reforms. If Congress does not reform Section 301 U.S. agricultural exports will decline even more precipitously as the trend towards mercantilism increases.

II. The Substantive and Procedural Requirements of a Section 301 Petition

I wish in summary fashion to describe the substantive elements of a Section 301 petition and the current procedural requirements; this description is essential background for understanding the reforms I will propose this morning.

I would like to provide a concrete example to assist you in following my reform proposals. Let us assume that U.S. rice exports are being kept out of Japan, as the

Government of Japan simply refuses to grant import licenses. The U.S. rice industry may file a petition under Section 301 of the Trade Act of 1974 with the Office of the United States Trade Representative alleging that this practice of the Government of Japan is (1) contrary to international trade agreements; (2) unjustifiable; (3) unreasonable; or (4) discriminatory. As you well know, Mr. Chairman, this is not a hypothetical example I am providing. Japan in fact does keep out U.S. rice and the U.S. rice industry did file a Section 301 complaint alleging that Japan's actions violated Article XI of the GATT and was unreasonable. Following a 45-day period, the U.S.T.R. must decide whether or not to accept the Section 301 petition and initiate an investigation. This is a fateful decision for the petitioner: until that point the Petitioner is merely a supplicant for U.S. Government assistance. After that point the leverage should shift in favor of the petitioner. Following acceptance of a Section 301 petition, Section 303 of the Trade Act of 1974 requires the U.S.T.R. to refer the matter to the dispute-resolution procedures of the applicable trade agreement "if the case involves a trade agreement". Thus, in the Japan hypothetical the U.S.T.R. would have to refer the petition to the GATT for resolution. Mr. Chairman, I can assure you that this is a prescription for disaster as far as U.S. agricultural interests are concerned.

Unfortunately, the GATT dispute resolution procedures have been ineffective when U.S. agricultural interests have been involved. I want to emphasize that the GATT dispute resolution procedures, involving panels and groups of experts, generally work in a much more effective fashion regarding industrial products. With regard to agricultural products, however, the GATT dispute resolution process is inordinately slow, overly politicized, and incapable of producing binding sanctions. This, of course, reflects the general difficulty of resolving international agricultural trade disputes, but should not be accepted by Congress as a surrogate for prompt and effective retaliation to secure needed foreign market access. I have attached a table to this testimony that describes the long and tortuous path Section 301 agricultural complaints have followed.

Three examples in the agricultural products area should suffice to make the point that "dispute resolution" in the GATT is an oxymoron. In 1976, at the request of the Florida Citrus Commission, the United States challenged the European Community's preferential import duties on citrus fruits from certain Mediterranian countries. This matter remains unresolved, 11 years later. Similarly, the Millers' National Federation case involving alleged violations of the Community's wheat export subsidies, which was commenced in

1975, also remains unresolved, 12 years later. Finally, in 1986 a GATT panel ruling against the Community for its alleged violation of the GATT through its granting of production subsidies on canned peaches, canned pears, and raisins was reversed. In this case, which has been going on since 1981, the Community managed to have the GATT reverse its decision because it did not like the panel's determination.

I do not wish to have the rice industry and other U.S. agricultural groups fall into the same "black hole" at the GATT that has already enveloped the citrus, wheat, and raisin industries. I urge you to strengthen the hand of the U.S.T.R. in dealing with illegal foreign trade barriers confronting U.S. agricultural exporters, while also strengthening the GATT dispute resolution process.

Perhaps the most compelling case indicating the nearly total breakdown of agricultural dispute resolution in the GATT is the Japan rice case in my "hypothetical". Notwithstanding the unassailable fact that Japan continues to violate its international obligations by effectively precluding imports of rice, the Reagan Administration nonetheless chose not to exercise the authority delegated by Congress to pursue this matter on a bilateral basis or to undertake unilateral action against Japan. It did this even though it conceded that The Rice Millers' Association Section 301 petition could not have been on a firmer legal basis. In formally rejecting the RMA Section 301 petition Ambassador Yeutter stated that, if he were to accept the RMA complaint, he would have to turn the whole matter over to a GATT panel. In his view, "[t]his is unlikely to precipitate market-opening changes in the Japanese rice program, which is the petitioners' objective." In other words, if pursued, the GATT route on the Japan rice access issue would have yielded a Phyrric victory. Unfortunately, under current law Ambassador Yeutter was forced to protect the lawbreaker by rejecting the RMA Section 301 petition.

Mr. Chairman, something is dreadfully wrong with a legal system that rewards Japan for keeping out U.S. rice on the grounds that the U.S.T.R. is precluded from unilaterally taking steps to protect U.S. agricultural export interests. I am convinced that it never was the intention of the Congress to tie the President's hands under Section 301.

III. Reforming Section 301 to Promote U.S. Agricultural Exports

A. Providing the U.S.T.R. with Unilateral Authority to Handle Agricultural Section 301 Cases

The first key issue that needs to be addressed by Congress is reform of Section 303 of the Trade Act of 1974 to provide the U.S.T.R. with the discretion to refer section

301 complaints to the GATT for resolution in cases involving agricultural products. This would replace the mandatory GATT referral which now exists. S. 500 (Title III), introduced by Sen. Pryor, contains such a provision. Current Sec. 303(a) reads in relevant part:

> If the (Section 301) case involves a trade agreement and a mutually acceptable resolution is not reached during the consultation period, if any, specified in the trade agreement, the Special Representative shall promptly request proceedings on the matter under the formal dispute settlement procedures provided under such agreement.

19 U.S.C., sec. 2413(a) emphasis added.

Under S. 500 Sec. 303(a) is amended by adding after the word "shall" the following words: "if considered appropriate with respect to agricultural products".

As modified by S. 500, section 303 would not require anything new of the U.S.T.R. Rather, it would provide him with the discretion to pursue section 301 agriculture cases, bilaterally or unilaterally, without being required to refer them to the multilateral dispute resolution process of the GATT for its interminable review. Merely because the GATT appears incapable of resolving disputes of this nature in a timely fashion, the law ought not require the U.S.T.R. to burden U.S. exporters with this additional delay in reducing barriers to trade.

B. Time Limitations

Under current section 304(a) of the Trade Act of 1974, the U.S.T.R. is not required to make any determination in a case involving a trade agreement until "30 days after the dispute settlement procedure is concluded". Thus, an agricultural product section 301 case now really has no overall time limitation and could easily stretch beyond the length of a senator's term. This is an intolerable situation. Accordingly, it would seem appropriate to have an overall time limitation of two years during which the U.S.T.R. has to decide a section 301 petition.

Under the scheme I am proposing, a two-track procedure would exist for agricultural complaints. For complaints the U.S.T.R. decides to refer to the GATT the two-year time limitation would be in place. For complaints handled either unilaterally or bilaterally by the U.S.T.R. and not referred to the GATT, the one-year "basket limitation" referred to in section 304(a)(1)(D) would be in place.

The virtues of the system I am proposing is that the U.S.T.R. would be given the flexibility to decide cases without referring them to the GATT, while assuring petitioners that if their case is referred to the GATT, there

will be a finite time limitation of two years from beginning to end.

The Reagan Administration has recognized the wisdom of this idea of time limitations, and is also proposing a 24-month time limitation on all cases referred to the GATT.

C. Definition of "Unreasonable"

Section 301 currently defines the term "unreasonable" as follows:

> (3) Unreasonable.--The term "unreasonable" means any act, policy, or practice which, while not necessarily in violation of or inconsistent with the international legal rights of the United States, is otherwise deemed to be unfair and inequitable. The term includes, but is not limited to, any act, policy, or practice which denies fair and equitable--
>
> (A) market opportunities;
>
> (B) opportunities for the establishment of an enterprise; or
>
> (C) provision of adequate and effective protection of intellectual property rights.

This definition does not meet the needs of U.S. agricultural exporters, which frequently must deal with foreign governments as their largest purchasers. But what if a foreign government simply refuses to purchase U.S. agricultural products? The government procurement code adopted in the Tokyo Round of the Multilateral Trade Negotiations (MTN) arguably does not reach a situation like Japan, where the government Food Agency purchases for resale (albeit at a lower price) to Japanese consumers. Indeed, Japan contends that its Food Agency is a state trading enterprise countenanced under Article XVII of the GATT. To clarify this issue of government agricultural procurement, the definition of the term "unreasonable" should be broadened to include the denial of market opportunities through:

(a) the failure of a government to grant import licenses for competitively priced products or commodities; and

(b) the operation of a state trading enterprise or government procurement policy as an import-restricting device.

D. Agriculture and the Uruguay Round of Multilateral Trade Negotiations

Apart from reform of Section 301, the Uruguay Round of Multilateral Trade Negotiations is the key area for future agricultural liberalization. The delegation of negotiation authority to the U.S. Trade Representative should contain a separate and explicit title dedicated to liberalization of world markets for agriculture. Such a title can work in practice only if the United States is willing to put its programs for agricultural products such as dairy, sugar, wheat, tobacco, and peanuts on the table; all agricultural sectors must be placed on the table in the interest of the broader U.S. policy.

As a way station to a broad negotiating authority in the MTN, Congress should consider an approach patterned on the telecommunications bill passed by the House last year and mirrored in S. 500, the "Rice Equity and Expansion Act of 1987". S. 500 provides that within 6 months after date of enactment, the U.S. Trade Representative is required to identify those foreign acts, policies, and practices of no less than 15 countries which are the largest potential rice markets that deny fully competitive market opportunities to the U.S. rice industry. Then the U.S.T.R. must establish specific negotiating objectives for each country identified, drawing from a list of primary and secondary negotiating objectives set forth in the bill.

Immediately thereafter, the President is required to begin negotiations with countries identified by the U.S.T.R. as denying fully competitive market opportunities. The purpose of these negotiations is to enter into bilateral or multilateral agreements which achieve the primary and secondary objectives established by the U.S.T.R. for each country. Such agreements must be reached within 12 months of the date of enactment. However, if substantial progress is being made, the President may request up to two 6-month extensions of negotiating authority, subject to "fast-track" Congressional review (an up-or-down vote within 45 days, with no amendments permitted).

If the President is unable to enter into a satisfactory agreement with a particular country within the authorized time period, the President is required to take whatever actions authorized in the bill are necessary and appropriate to achieve his primary negotiating objectives. The President, at his discretion, also may take whatever authorized actions are necessary to achieve the secondary objectives not covered by an agreement.

The U.S.T.R. must conduct annual reviews of agreements reached by the President to determine whether any act, policy, or practice of the country concerned is not in compliance with terms of the agreement or otherwise denies fully competitive market opportunities. If he finds a violation or that these opportunities are being denied, he

must take whatever actions are authorized to fully offset the foreign acts, policies, and practices and to restore the balance of concessions between the United States and the foreign country.

The legislation also establishes two broad negotiating objectives for the Uruguay Round of Multilateral Trade Negotiations. The first objective is identical to section 15[illegible](b)(8) of the House omnibus trade bill. The second objective codifies the intent of title I of the bill, namely, to encourage elimination of tariff and nontariff barriers to international trade in rice.

IV. Summary

In summary, Mr. Chairman, the provisions of Section 301 must be reformed to give the President the tools he needs to counter foreign market access limitations and export subsidization. In addition, the GATT discipline on agricultural trade needs to be improved in the context of the market-opening exercise of the Uruguay Round. Congress can achieve the Section 301 reforms, as it has the plenary authority over the regulation of foreign commerce pursuant to Article I, Sec. 8 of the U.S. Constitution. Congress needs to work with the President in the longer Uruguay Round exercise. The decline in U.S. agricultural exports by 37 percent since 1981, from $43.8 billion per year to $27.5 billion in 1986, indicates that this essential two-track exercise should not be delayed.

Thank you very much for your consideration. I would be glad to answer any questions you might have.

APPENDIX
AGRICULTURE CASES BROUGHT UNDER
SECTION 301

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
Canada Egg Quota (301-2)	United Egg Producers and American Farm Bureau Federation filed petitions on July 17 and 21, 1975, alleging that a Canadian quota on the importation of U.S. eggs constituted an unfair trade practice (40 FR 33,749).	As a result of bilateral negotiations, Canada approximately doubled its quota for imports of U.S. eggs. Investigation terminated on March 14, 1976 (41 FR 9430).
EC Supplementary Levies on Egg Imports (301-3)	Seymour Foods, Inc. filed a petition on August 7, 1975, alleging that changes in the EC's supplementary levies on imports of egg albumin impaired the ability of U.S. exporters to contract for sales in the EC (40 FR 34, 649).	Following informal consultations, supplementary levies were replaced with increased import charges. However, since U.S. exports of egg albumin steadily increased, the Section 301 Committee determined that no further action was necessary. Investigation terminated on January 5, 1979 (44 FR 1504).
EC Minimum Import Price & License/ Surety Deposit Systems on Canned Fruits, Juices and Vegetables (301-4)	The National Canners Association filed a petition on Sept. 22, 1975, alleging that the EC's minimum import prices and an import license/surety deposit system with respect to canned fruits, juices and vegetables constituted an unfair trade practice (40 FR 44,635).	Public hearings held on Nov. 17, 1975. USTR consulted under GATT Art. XXIII:1(c) on March 29, 1976. A GATT panel was appointed under Art. XXIII:2. As a result of the panel's report, the EC discontinued use of minimum import price mechanism. Investigation terminated on January 5, 1979 (44 FR 1504).

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
EC Subsidies of Malt Exports (301-5)	Great Western Malting Company filed a petition on Nov. 13, 1975, alleging EC subsidies on Malt to third countries (40 FR 54,311).	In 1976, the EC reduced the subsidy. Investigation terminated on the advice of the Section 301 Committee and with petitioner's agreement on June 19, 1980 (FR 41,558).
EC Citrus Tariff Preferences for Certain Mediterranean Countries (301-11)	Florida Citrus Commission et al. filed petitions on Nov. 12, 1976, alleging that the EC's preferenetial tariffs on orange and grapefruit juices and fresh citrus fruits from certain Mediterranean countries have an adverse effect on U.S. citrus exports to the EC (41 FR 52,567).	USTR initiated an investigation on Nov. 30, 1976. Public hearings held on Jan. 25, 1977. During the MTN, duty reductions obtained on fresh grapefruit only. GATT Art. XXII:1 consultations held in October 1980, followed by informal discussions. Formal consultations under GATT Art. XXIII:1 on April 20, 1982. Concillation efforts in Sept. 1982 failed. On Nov. 2, 1982, the GATT Council agreed to establish a panel. The panel composition and terms of reference of the panel took some months to resolve. The panel met on Oct. 31 and Nov. 29, 1983, and Feb. 13 and March 12, 1984. The factual portion of the panel report was submitted to the parties on Sept. 27. The full report was submitted on Dec. 14, 1984. The GATT Council considered the panel's findings and recommendations on on March 12 and April 30, 1985, but the EC blocked

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
EC Citrus Tariff Preferences for Certain Mediterranean Countries (301-11) cont'd		any action. On April 30, the U.S. considered the dispute settlement concluded. On May 10 public hearings were held on the substance of USTR's recommendations to the President (50 FR 15,266). USTR recommendation was transmitted on May 30. On June 20 the President determined that the EC practices deny benefits to the U.S. arising under the GATT, are unreasonable and discriminatory, and constitute a burden on U.S. commerce (50 FR 26,143). Effective July 6, the President imposed a 40% ad valorem duty on pasta products containing egg (50 FR 26,143). The EC reacted by raising duties on lemons and walnuts imported from the U.S. suspension of increases, reduce EC pasta export subsidies by 45%, and take steps to increase access to the EC market for U.S. citrus exports by Oct. 31. Because the EC did not increase our access to its citrus market by Oct. 31 as promised, the U.S. imposed the substantially higher duties on past imported from the EC on Nov. 1. The EC then counter-retaliated and imposed higher duties on lemons and walnuts

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
		imported from the U.S. In August the U.S. and EC reached an agreement to resolved this case. The U.S. obtained tariff concessions from the EC on citrus products. In addition, the agreement provides for EC tariff concessions on other products in return for certain U.S. concessions, some of which are subject to legislative approval. After negotiation of this agreement, both the U.S. and EC terminated their retaliatory duties (51 FR 30, 146).
EC Wheat Export Subsidies (301-16)	Great Plains Wheat, Inc. filed a petition on Nov. 2, 1978, alleging that EC export subsidies were enabling exports of wheat from the EC to displace U.S. exports in third country markets (43 FR 59,935)	Public hearings held in Feb. 1979, consultations with the EC in July 1979. Both parties agreed to monitor developments in the wheat trade, exchange information, and consult further to address any problems that might arise. Investigation terminated on Aug. 1, 1980 (45 FR 49,428).
EC Sugar Export Subsidies (301-22)	Great Western Sugar Company filed a petition on Aug. 20, 1981, alleging EC violation of GATT Art. IVI and the Subsidies Code in using export subsidies to obtain more than an equitable share of world export trade in sugar (46 FR 49,697).	Investigation initiated on Oct. 5, 1981. Public hearing held on Nov. 4, 1981. USTR consulted with the EC under Art. 12:3 of Subsidies Code on Feb. 16, 1982. The conciliation phase was completed on April 30, 1982. USTR submitted a recommendation

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
		to the President on June 7, 1982. On June 28, 1982, the President directed USTR to continue international efforts to eliminate or reduce EC subsidies (47 FR 28,361).
EC Poultry Export Subsidies (301-23)	The National Broiler Council filed a petition on Sept. 17, 1981, alleging EC violation of GATT Art. XVI and the Subsidies Code in using export subsidies that displace U.S. poultry exports to third country markets (46 FR 54,831).	Investigation initiated on Oct. 28, 1981. Consultation with the EC under Art. 12:3 of the Subsidies Code held on Feb. 16, 1982. On June 11, requests submitted for information under Art. 17 of the Code to the EC and Brazil. USTR submitted a recommendation to the President on June 28, 1982. On July 12, the President directed expeditious examination of Brazilian subsidies (47 FR 30,699). U.S. informally consulted with Brazil on Aug. 30, 1982 and consulted with the EC on Oct. 7, 1982. Art. 12 consultations held with Brazil on April 1, 1983. Meetings with the EC and Brazil on June 23. Since these consultations did not resolve the problem, USTR requested conciliation. The Subsidies Code Committee held the first conciliation meeting on Nov. 18, 1983. Conciliation continued on April 4, May 4, June 20, and Oct. 16, 1984, and is still pending.

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
EC Pasta Export Subsidies (301-25)	The National Pasta Association filed a petition on Oct. 16, 1981, alleging EC violation of GATT Art. XVI and the Subsidies Code in using pasta export subsidies, resulting in increased imports into the U.S. (46 FR 59, 675).	Investigation initiated on Nov. 30, 1981. Beginning on Dec. 2, 1981, USTR consulted with the EC several times. On March 1, 1982, the matter was referred to the Subsidies Code Committee for conciliation. USTR later requested a dispute settlement panel, and on April 7 the Committee authorized its establishment. The panel began its work on July 12. On July 21, the President directed USTR expeditiously to complete dispute settlement (47 FR 31,841). The panel met again on Oct. 8 and issued factual findings on Jan. 20, 1983. At the EC's request, an additional panel meeting was held March 29. The panel report (3-1 in favor of the U.S.) was submitted to the Subsidies Code Committee May 19. The Committee considered the report. See Docket No. 301-11 for Presidential action affecting pasta in 1985. Under the U.S.-EC agreement on citrus, both parties are committed to settle the pasta dispute through prompt, good faith negotiations, which are expected to conclude by July, 1987.

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
Brazil Soybean Oil and Meal Subsidies (301-40)	The National Soybean Processors Association filed a petition on April 16, 1983, alleging that the governments of Argentina, Brazil, Canada, Malaysia, Portugal and Spain engage in unfair practices, including export and production subsidies and quantitative restrictions that restrict U.S. exports of soybean oil and meal (48 FR 23,947).	On May 23, investigation initiated against Brazil, Portugal, and Spain. Public hearing held on June 29 and 30. Consulted under Art. 12 of the Subsidies Code on Nov. 21. USTR submitted a recommendation to the President on Jan. 23, 1984; on Feb. 13, the President directed USTR to pursue dispute settlement procedures under the Subsidies Code (49 FR 5915). USTR has requested additional consultations. USTR awaiting conclusion of GATT dispute settlement.
Portugal Soybean Oil and Meal Subsidies (301-41)	See 301-40.	Consultations under GATT Art. XXII on Nov. 29, 1983. In June 1984, Portugal began lifting its restrictions on soymeal imports. USTR awaiting conclusion of GATT dispute settlement.
Spain Soybean Oil and Meal Subsidies (301-42)	See 301-40.	Consultations under GATT Art. XXII on Dec. 1, 1983. USTR awaiting conclusion of GATT dispute settlement.
Taiwan Rice Export Subsidies (301-43)	The Rice Millers Association filed a petition on July 13, 1983, which it withdrew on Aug. 26. It refiled on Sept. 29, 1983, alleging that Taiwan subsidizes exports of rice that restrict U.S. exports and burden the U.S. support program (48 FR 56,289).	Investigation initiated on Oct. 11, 1983. Consultations held on Dec. 8-9, 1983, and Jan. 17-18 and Feb. 20-22, 1984. Based on an understanding reached during those discussions providing for limits on subsidized rice exports from Taiwan, petitioner withdrew its petition

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
EC Canned Fruit Production Subsidies (301-26)	The California Cling Peach Advisory Board et al. filed a petition on Oct. 23, 1981, alleging violation by the EC of GATT Art. XVI in granting production subsidies on EC member states canned peaches, canned pears and raisins, that displace sales of non-EC products within the EC and impair tariff bindings or those products (48 FR 61,358)	Investigation initiated on Dec. 10, 1981. Consultations with the EC under GATT Art. XXIII:1 on Feb. 25, 1982. U.S. requested a dispute settlement panel under Art. XXIII:2 on March 31, 1982. On Aug. 17, 1982, the President directed USTR to expedite dispute settlement (47 FR 36,403). The panel met on Sept. 29 and Oct. 29, 1982. The panel report was submitted to the U.S. and EC on Nov. 21, 1983. The panel met again with the parties on Feb. 27, 1984. A revised panel report was submitted to both parties on April 27, 1984. An additional panel meeting was held on June 28. A final panel report was issued on July 20. The U.S. requested adoption of the panel report in GATT Council meetings of April 16, but Council action was deferred because the EC was not yet ready to act on the report. On Sept. 7, 1985 the President directed USTR to recommend retaliation unless this case was resolved by Dec. 1, 1985. In December the U.S. and the EC reached a settlement under which, in addition to subsidy reductions already implemened on canned fruit, the EC agreed to phase out processing subsidies for canned peachecs.

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
		on March 9, 1984, and USTR terminated the investigation on March 22 (49 FR 10,761).
Argentina Soybeans and Soybean Products (301-53)	The National Soybean Processors Association filed a petition on April 14, 1986, alleging that the differential in Argentina export taxes (higher for soybeans than for soybean products) provides Argentina crushers with an unfair cost advantage that burdens U.S. exports in third-country markets.	Investigation intiated on April 25, 1986 (51 FR 16, 764). Consultations with Argentina Aug. 25-26. USTR required to submit recommendations to the President by April 25, 1987.
EC Enlargement (301-54)	On March 31, 1986, the President announced his intention to (1) impose quotas on EC products if the EC did not remove certain quantitative restrictions on oilseeds and grains in Portugal; and (2) increase tariffs on EC products if the EC did not provide compensation for U.S. losses resulting from the EC's imposition of variable levies on corn and sorghum imports into Spain in breach of prior tariff commitments.	On May 15, the President imposed quotas on EC imports in response to the EC's quantitative restrictions in Portugal (51 FR 18,294). On July 2, the U.S. reached an interim solution with the EC with regard to the import levy restrictions in Spain. That solution provides that any shortfall in U.S. corn, sorghum, and corn gluten feed exports to Spain below a monthly average of 234, 000 metric tons through the remainder of 1986 would be compensated for through reduced import levy quotas in the EC. The Trade Representative announced on Dec. 30, 1986, that unless the EC agreed to compensate the U.S. satisfactorily by the end of January for $400M in lost corn and sorghum exports to

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
		Spain, the President would be compelled to impose duties of 200% ad valorem on imports into the U.S. of certain EC cheeses, ham, carrots, endives, white wine, brandy and gin--accounting for $400 M in EC exports to the U.S. On Jan. 30, 1987, the U.S. and EC settled this case. The EC agreed to ensure annual imports of corn and sorghum in Spain of $2M and 300,000 metric tons, respectively. It also agreed to rescind its requirement in Pportugal that 15% of the Portugese grain market (about 400,000 metric tons) be reserved for sales from EC member countries. It further agreed to reduce duties on 26 other products (including plywood, apple and cranberry juices, and certain aluminum products), and to extend all current EC tariff bindings to Spain and Portugal.
Canada Fish (301-55)	Icicle Seafoods and nine other seafood processors filed a petition on April 1, 1986, alleging that the Canadian prohibition on the export of unprocessed herring and salmon violates GATT Art. XI and provides Canadian processors with an unfair cost advantage that burdens U.S. exports in third country markets.	USTR initiated an investiga- May 16, 1986 (51 FR 19,648), and requested comments on certain economic issues relating to the investigation. Consultations with Canada under Art. XXIII:1 of the GATT held Sept. 3 and Oct. 27. USTR awaiting conclusion of GATT dispute settlement procedures.

COUNTRY AND PRODUCT/SERVICE CONCERNED	COMPLAINT	DISPOSITION OR PRESENT STATUS
Taiwan Beer, Wine & Tobacco (301-57)	On Oct. 27, 1986, the President determined that acts, policies and practices of Taiwan regarding the distribution and sale of U.S. beer, wine and tobacco products in Taiwan are not actionable under Section 301 (51 FR 39,639). He decided to take proportional countermeasures so long as Taiwan continues these practices, and directed the Trade Representative to propose appropriate and feasible actions.	On Dec. 5, 1986, Taiwan agreed to cease the unfair practices complained of. As a result, USTR announced that no retaliatory action would be proposed as previously directed by the President (51 FR 44,958).

STATEMENT OF JOHN BAIZE
STAFF VICE PRESIDENT
GOVERNMENT RELATIONS AND POLICY
AMERICAN SOYBEAN ASSOCIATION

I am John Baize, Staff Vice President for Government Relations and Policy of the American Soybean Association (ASA). ASA is a national, non-profit, volunteer organization of U.S. soybean farmers. ASA seeks to assure the opportunity for U.S. soybean farmer profitability though its market development, research, government relations and trade policy activities.

I appreciate this opportunity to present ASA's views and recommendations regarding actions the U.S. Government should take to expand U.S. agricultural exports, in general, and soybean and soybean products exports, in particular. We commend the Chairman for his investigation of U.S. trade and export policy and pledge to do our best to assist the Subcommittee with its efforts.

U.S. soybean farmers have an enormous stake in the export market and in U.S. trade and export policies. Approximately one-half of U.S. soybeans are exported annually either as whole soybeans, soybean meal, soyoil, or as one of several other soybean derivatives. In 1986, the value of all soybean and soybean product exports was approximately $5.6 billion, but in 1981, our largest export year ever, the value of our exports was $8.3 billion. It should be noted that in 1981 the U.S. soybean sector was the largest foreign exchange earner of any sector, industrial or agricultural.

Before I comment on specific issues before the Committee, it is important to profile the U.S. soybean industry's export markets and some of the problems that are unique to the sector.

The United States produced approximately 56 million metric tons of soybeans in 1986 from about 60 million acres. Our principal foreign competitors in the world market, Brazil and Argentina, will this year produce about 17 million metric tons and 7.7 million metric tons respectively. The United States is by far the largest producer of soybeans in the world, but we are also the largest consumer and exporter. Yet Brazil and Argentina have sharply increased their soybean production in recent years and both export over 75 percent of their production principally as soyoil and soymeal. Both countries have enormous potential to boost their soybean production if economic forces deem it

profitable. The fact that Brazil and Argentina have respective foreign debts of $108 billion and $55 billion is already pressuring them to boost their soybean production and exports as a source of foreign exchange with which to service those debts. Were the debts of the nations reduced, both would likely divert more of their resources to better feeding their own people rather than producing and exporting soybeans to earn foreign exchange. Solving the Latin American debt crisis is understandably a priority of U.S. soybean farmers.

Another of our major competitors on the world market is palm oil produced and exported largely by Malaysia and Indonesia. Palm oil competes directly with soyoil in the major vegetable oil markets of India, Pakistan, Europe and the United States. Much of the world production of palm oil is a direct result of World Bank and other multilateral lending agency loans for oil palm production. Even though the world currently has a glut of vegetable oil, we continue to see loans being approved to expand oil palm plantings. It is for that reason ASA supports S. 220, Senators Symm's and Nickles' bill to require the United States to vote against multilateral bank loans for the production of surplus commodities and to reduce U.S. financial commitments to banks that approve such loans over U.S. objections. We urge the Senate to approve S. 220.

Soybeans are also very unique among major U.S. export commodities in that our largest export market is the European Community. Approximately half of U.S. soybean and product exports go to the 12-nation EC. We have such a large EC market, in large part as a direct result of the EC in 1962 having granted the United States duty-free bindings on soybeans and soymeal. Because of the bindings, our exports have been able to enter the EC free of duty, quota or other import restrictions. You are well aware the EC imposes variable levies and quotas to keep almost all other major U.S. export commodities out of the EC internal market in order to protect its own internal production from lowerpriced U.S. commodities.

The EC has long regretted granting the United States the duty-free bindings on soybeans and soymeal and has often attempted to impair the bindings in one way or another in order to boost its own self-sufficiency in vegetable oil and protein. The EC has never withdrawn the dutyfree bindings unilaterally because it could not afford to pay the compensation it would owe the United States for the withdrawal.

It is important to recognize the EC imports our soybeans and soymeal at world prices--not because it wants to--but because it can't afford to suffer the costs of U.S. retaliation for not doing so. But at the same time, we have only been able to avoid EC import restrictions because of our resolve to retaliate against EC impairment of its duty-free bindings and because we have never attempted to subsidize our products into the EC market. The fact that the United States has over the years maintained a market-oriented policy for soybeans may very well be the major reason we still have such a large market in the EC. We must be very careful that we do not now adopt domestic and export policies for soybeans and soybean meal which will invite the imposition of EC countervailing duties against our exports. It is for this reason that the Export Enhancement Program offers no pratical benefit in expanding our sales to Europe. And we should also carefully consider whether we will invite EC countervailing duties on U.S. soybeans and soymeal if we implement policies that directly subsidize farmer income beyond the world price of the commodity. This is particularly relevant in light of Canada's last week imposing a countervailing duty on U.S. corn. We will have accomplished little if we implement a producer subsidy for soybeans and then have it countervailed by Europe.

Evidence of the EC's determination to restrict our access to its market is the recent EC Commission proposal to apply a 330 ECU ($370) per metric ton tax on all vegetable and marine oils consumed in Europe. the tax would not apply to butter, tallow or lard. The proposed tax is highly discriminatory toward lower-priced oils like soyoil as compared to expensive oils like olive oil and would make soy-oil based margarine and shortening substantially less competitive with EC-origin butter, lard and tallow-based margarine. Worst of all, the tax would raise over $2.3 billion for the EC to finance its rapidly expanding and highly-subsidized oilseed industry. Presently, the EC is guaranteeing its farmers over $15.50 per bushel for soybeans, $472 per MT for rapeseed, and $600 per MT for sunflower seed. Within the last five years, EC soybean production has increased by 2300 percent to 820,000 MT in 1986 and it is expected to increase by another 34 percent to 1.1 million MT next year. Overall EC oilseed output has increased more than 400 percent in the last eight

years. We are confident the EC's internal oilseed support regime violates the duty-free bindings on soybeans and soymeal and we continue to urge the Administration to self-initiate a section 301 complaint against the subsidies in GATT. But our most immediate concern is the necessity for the EC fats and oils consumption tax to be voted down by the EC Council of Agricultural Ministers next month. We are pleased the Administration last week opted to retaliate against the EC should the tax be approved. And we appreciate the co-sponsorship of the Chairman and others of S. Con. Res 21, a resolution introduced by Senators Danforth and Heflin condemning the tax and urging U.S. retaliation should it be approved. ASA urges the Senate to pass the resolution as soon as possible to send an unmistakable signal to the EC as to the seriousness of its proposal. For your information, a group of ASA leaders and staff, including myself, will depart Saturday for Europe where we will personally urge key EC member state governments to oppose the tax.

I now wish to call your attention to actions ASA believes the Congress and the Administration should take to expand U.S. agricultural exports. ASA urges the following:

- o Expand Foreign Agricultural Service and Cooperator Funding. ASA believes one of the Congress' first priorities should be to appropriate no less than $100 million for the Foreign Agricultural Service in FY 1988. The President's FY 88 request of $89 million for FAS is no longer sufficient in the face of a lower-valued dollar and the increased workload on FAS. The 1985 farm bill created 12 new export programs to be administered by FAS personnel and the Uruguay Round of multilateral trade negotiations will increase the demands upon FAS even more. FAS simply needs more staff to effectively carryout its mission. The lower-valued dollar, while good for our export competitiveness, means FAS and cooperator funds will buy fewer programs overseas than they did a year ago. FAS has already targeted 18 foreign posts for staff reductions or elimination should it not receive a

larger appropriation in FY 88. And cooperator organizations like ASA will be forced to close some of their offices overseas and reduce market development activities should FAS cooperator funding not be increased. We must not cut back our foreign market development activities at a time when export expansion is such a necessity.

- Use of CCC-Owned Commodities for Foreign Market Development Activities

ASA urges the Congress to authorize and direct the Administration to authorize the use of CCC-owned commodities by cooperator organizations in foreign market development activities. CCC-owned commodities could either be used directly by cooperators or such activities as feeding trials or be sold abroad for local currency which could, in turn, be used to finance in-country market development and promotion activities to build commercial markets for U.S. commodities.

However, such a program should not take the place of current market development activity funding but rather should supplment current FAS cooperator market development funding.

- Require the Administration to Authorize Intermediate Credit for Foreign Infrastructure

One of the greatest impediments to building foreign demand for U.S. bulk commodities is the lack of infrastructure in developing countries necessary to efficiently offload, store, transport and utilize such commodities. Rather than receiving their commodities in bulk, many countries without bulk offloading facilities must import their needs in bags or in containers at a much higher per-unit cost. They then lack facilities to store or use the commodities. Since 1978, the Administration has been authorized to grant 3 to 10 year term loans to developing countries to build the infrastructure needed to efficiently import and use our commodities. But, thus far the Administration has refused to do so even though it is required by the 1985

farm bill to make available no less than $500 million annually in intermediate credit or guarantees. We urge the Congress to require the Administration to use at least half of the $500 million in intermediate credit for infrastructure loans.

- Forbid Administration From Accepting EC Withdrawal of Duty-free Bindings on Soybeans and Soymeal as Part of Uruguay Round Negotiations

  I have mentioned earlier in my testimony how important the European Community's duty-free import bindings on soybeans and soymeal are to U.S. soybean farmers. Over half of our exports go to the EC market. However, it appears the EC may attempt to use the Uruguay Round of GATT trade negotiations to withdraw the bindings in return for granting the United States compensation in other areas. The Administration has yet to pledge it would not accept such an offer. In order to protect the largest market for U.S. soybean farmers, we urge the Congress, as part of the legislation authorizing U.S. participation in the Uruguay Round, to include a provision statutorily prohibiting U.S. acceptance of EC withdrawal of its duty-free bindings on soybeans and soymeal in return for other compensation. The purpose of the Uruguay Round should be to liberalize trade. Accepting an EC withdrawal of the duty-free bindings would be counter to that objective.

Thank you again for this opportunity express ASA's views on the export trade issues. American soybean farmers have an enormous stake in export expansion as a way of boosting U.S. farmer income.

STATEMENT OF C. MANLY MOLPUS, PRESIDENT OF THE AMERICAN MEAT INSTITUTE

Good morning, Mr. Chairman. I am Manly Molpus, president of the American Meat Institute, the national organization representing the meat packing and processing industry. Meat exports are of increasing concern to our membership. The achievement of fair, competitive international trade in meat products is high on our list of priorities. I commend this subcommittee for taking an early interest in this area. We need your help and leadership.

The American meat industry produces a variety of safe, wholesome meat products for export. Unfortunately, our industry continues to face prohibitive quotas, outright bans, product inspection requirements and tariffs that are in place to inhibit or completely prevent our U.S. meat products entry into important world markets. These illegal and unfair practices by countries that are supposedly our trading partners threaten the economic health of the United States meat and livestock industry.

For example, in Korea, we are concerned with a blatant and undisguised total ban on U.S. meat products. The American Meat Institute and other groups intend to file a petition under section 301 of the General Agreement on Tariffs and Trade to challenge Korea's ban on U.S. meat products. At this very moment, our industry is facing the most clear and present danger of a new non-tariff trade barriers being erected by the European Economic Community in the form of technical inspection requirements that have no scientific basis. Again, the American Meat Institute, with the support of other livestock and farm organizations, intends to file a petition under section 301 of the GATT to challenge the EEC inspection directive.

Since this is of such urgency, let me take a moment to explain the situation. Effective April 30th, U.S. plants will not be allowed to ship their products to the EEC unless these plants comply fully with the requirements adopted by the EEC, known as the Third Country directive. Through this set of regulations, the EEC seeks to improve highly technical, but substantively insignificant inspection requirements. The requirements, dictating such things as where walls are placed within a plant and the kind of materials of which plant employees' tools must be composed, differ from U.S. inspection requirements, but have never been shown to be any more effective. Moreover, many of these inspection requirements are not even enforced within the EEC. Yet, the European Community demands that our plants strictly comply with the details of their requirements or be denied the right to export into the European Community.

Our industry is faced with either the loss of this very important market for variety meats that affects the value of livestock or being forced, with this gun pointed at our heads, to make investments in new equipment to comply. We should not have to make either choice. This issue should be a top priority of our U.S. trade office, and we urge this subcommittee to join with AMI and the other agricultural groups in urging the trade office to give this matter its immediate attention. At a time when the EEC is exporting into the U.S. meats with a value three times greater than what we export to the EEC, it is inconceivable that we would stand by and allow the EEC to halt or curtail our exports.

In addressing these issues, I have mentioned our intent to file section 301 petitions. We are taking that action because it is basically the only statutory authority we have to fight unfair trade practices. However, I would hasten to add that the section 301 as a remedy to resolve trade disputes is lacking in effectiveness in many respects. It is a slow and costly process that rarely results in the elimination of the unfair trade practice. There are several notable 301 actions that have taken years to resolve or after years of being in "process" remain unresolved.

The time has come for the United States to put into our trade law an effective tool to resolve unfair trade disputes. Having reviewed the legislation that has been introduced by Chairman Pryor and other members of this committee and other Senators. Let me comment on the merits of various aspects of that legislation. Senator Pryor has introduced S. 500, a bill that would go a long way toward addressing the kinds of barriers to international trade that have been experienced by the rice industry. That proposal merits careful consideration. The mechanisms it establishes to enable the USTR and the President to move effectively and expeditously against unfair practices of other countries are especially worthy of attention.

We caution, however, that while the President clearly deserves and needs some discretion in the employment of trade remedies, his complete discretion today hinders his ability to resolve certain disputes. Unless our international competitors believe that the Presidential hands may, under certain circumstances, be tied if good faith negotiating toward the elimination of trade barriers cannot be demonstrated, they will not take seriously the likelihood that sanctions will be imposed. In short, the elements of the various pieces of legislation that have been introduced

that we think deserve consideration as an integral part of new trade legislation would be the following:

(1) That the United States Trade Representative be directed to investigate alleged unfair practices by foreign countries resulting in restriction or prohibition of U.S. meat exports.

(2) That upon identifying unfair practices, the USTR be required to negotiate with those countries imposing such restrictions and demand a prompt and complete resolution.

(3) That finite deadlines for investigation and negotiations be established and that the USTR be prohibited from departing from those deadlines in the absence of a substantial showing that additional and defined negotiating time lead to a satisfactory resolution.

(4) In the absence of a satisfactory resolution by the deadlines established by law, that USTR be required to recommend to the President of the United States that retaliatory action, comparable in scope and magnitude to the unfair practices, be instituted.

(5) That the President be required to retaliate unless a substantial showing that elimination of unfair practices can be anticipated by statutorily set deadline.

Proposals such as S. 310 (introduced by Senators Baucus, Boren, Burdick, Exon, and Heflin) and S. 512 (introduced by Senators Leahy, Pryor, Cochran, Grassley, and Melcher) would complement the new remedies by enhancing agricultural exports. Certainly, this, however, should not be viewed as a substitute for an aggressive challenge to unfair trade practices. Let me be very clear—our single most important objective in trade legislation must be to improve the mechanisms to resolve unfair trade practices. Gaining access to the market is the most crucial element in improving our meat exports. Additional funds or personnel for market development may be desirable, but those efforts are useless if we cannot get into the marketplace.

Mr. Chairman, the American Meat Industry only asks that we be given a fair chance to compete. Our products will sell themselves, and we are quite willing to go into foreign markets and put in place the marketing tools necessary to sell our products. As things stand now, however, we are losing ground because other countries do not play fair; nor do they take our threats to ensure fair trade seriously.

Thank you for giving us this opportunity to appear before your subcommittee. We look forward to working with you.

STATEMENT OF WILLIAM K. QUARLES, VICE PRESIDENT, GOVERNMENT AFFAIRS, SUNKIST GROWERS, INC., VAN NUYS, CA

Good morning Mr. Chairman and members of the Committee. My name is William K. Quarles. I am Vice President of Government Affairs for Sunkist Growers, Inc.

Sunkist is a non-profit agricultural marketing cooperative consisting of approximately 6,000 growers who produce citrus in Arizona and California. Varieties produced by Sunkist members are navel and valencia oranges, lemons, grapefruit and tangerines. Sunkist members primarily produce citrus for the fresh fruit market, which is packed in 66 citrus packinghouses throughout the two states. Fruit that cannot be sold fresh is used to produce a vast array of processed citrus products.

Approximately one-third of Sunkist's total volume is exported. Since fresh citrus is a perishable product, our export markets are vital to the economic well-being of Sunkist members.

It is a pleasure for me to be appearing this morning before the Committee to discuss agricultural foreign trade proposals that may be of interest to this Committee as it develops proposals for an agricultural section of an omnibus trade package. With U.S. farm exports in drastic and unprecedented decline, it is essential that meaningful, not cosmetic, programs be available to restore, maintain, and expand agricultural exports.

I would like to spend most of my time this morning talking about two programs—the Foreign Agricultural Service's (FAS's) Cooperator Market Development Program and the closely related, Targeted Export Assistance (TEA) Program—that have had remarkable success in moving U.S. farm exports. These programs are being emphasized in part because this is where Sunkist's experience lies and in part because such programs are believed to be the key to strengthening our exports abroad. Although the Cooperator and TEA programs have not received much attention to date in the context of omnibus legislation, they bear closer consideration by, and the maximum support of, this Committee.

The Cooperator Program, authorized under the Agricultural Trade Development and Assistance Act of 1954, has been structured and administered as a partnership between FAS and the private sector to develop, maintain, and expand commercial markets for U.S. agricultural commodities. With U.S. agricultural exporters facing new and increasingly unfair competition every season, the market maintenance function of this program has become particularly essential. To overcome these market restraints and familiarize potential foreign customers with U.S. farm products, FAS and cooperators work together sharing funds and expertise to develop and implement promotional activities.

Sunkist participated in the Cooperative Program for many years until fiscal year 1986, when TEA was created. As a former and perhaps future cooperator participant, it is our view that the sharing of expertise and funds afforded by the Cooperator Program has greatly enhanced past market development efforts for Sunkist and other cooperators. The program has been particularly beneficial in directing cooperators, most of whom are inclined to emphasize short-term market opportunities, to invest in long-term commitments required to develop and maintain future market outlets. Sunkist, for example, has used cooperator funds in years gone by to develop new market opportunities in the Pacific Rim to replace sales lost in the European Economic Community as a result of illegal Mediterranean tariff preferences. This outward, long-term orientation is essential if American agriculture, which is increasingly being closed out of traditional markets, is to survive in world trade.

The one notable shortcoming of the Cooperator Program is its severely limited funding. Funding for FAS "market development"—which is the budgetary line item that includes the Cooperator Program, the Agricultural Trade Offices, market development staff and related administrative expenses—was at $45,972,000 for fiscal year 1986. In 1987, this amount was increased in a supplemental appropriation by $2,108,000 to cover increases in staff costs, for a total of $48,080,000. Given the abundance of agricultural marketing barriers and restraints abroad and the resulting need for vigorous market promotion to help overcome these restraints and maintain our overseas presence, this level of funding is plainly inadequate.

The example of Sunkist may help put this into perspective. In fiscal year 1985, Sunkist received $745,000 in FAS Cooperator funds to overcome market restraints and promote abroad. That year, the U.S. citrus industry sustained $40–$45 million in damages as a result of the previously mentioned EEC Mediterranean tariff preference scheme being prosecuted under Section 301. We were also sustaining injury from EEC direct export subsidies of fresh citrus, EEC processing subsidies on citrus products, Japanese tariff and non-tariff barriers on fresh oranges, and a Korean prohibition on imports of oranges for general consumption. The export damage being sustained abroad in the aggregate virtually dwarfed Sunkist's cooperator activities.

One of the central points I would like to leave with the Committee this morning is that the Cooperator Program can and will assist in promoting agricultural exports if its current budgetary constraints are lifted and program funding expanded to help meet the challenge of market barriers abroad.

It was in recognition of this funding limitation that the Targeted Export Assistance Program was conceived by Congress. Those that drafted Section 1124 of the Farm Security Act of 1985 properly understood that the California-Arizona citrus industry and many similarly situated agricultural sectors faced such wide-spread and profound marketing barriers abroad that export maintenance and enlargement would not be possible without greatly expanded market development and promotion activities.

Accordingly, under the terms of the TEA provision, $110 million in funds or an equal amount of CCC commodities was mandated during fiscal years 1986, 1987 and 1988 for market promotion to offset unfair trading practices abroad. For fiscal years 1989 and 1990, the amount of mandated funding is to increase to $325 million. "Priority" funding for all years is to be given to those commodities that have been subject to a successful Section 301 action or victimized by retaliation as a consequence of a Section 301 action. By virtue of our long-standing 301 case against the EEC, Sunkist qualifies as a priority beneficiary.

Although the TEA Program is only in its second year of operation, and refinements are still being made, the program has been administered effectively with already impressive results. Indeed, many have characterized the TEA Program as the "shining star" of the 1985 Farm Bill.

In the case of Sunkist, priority TEA assistance in the amount of $7.9 million was allocated for market promotion in the Pacific Rim countries. This money, together with Sunkist matching funds amounting to 33% of the TEA funds spent, enabled Sunkist to increase significantly its advertising and promotional budget for Japan this season. Expanded merchandising activities—which included, among other

things, stepped-up in-store promotion—increased demand for Sunkist oranges by highlighting new uses for our fruit. As a result, both the volume of Sunkist shipments to Japan and the per-unit prices for those shipments have increased significantly over last year. The higher prices in Japan alone have resulted in increased grower returns in excess of $16.8 million. This is a considerable success, given that Sunkist had a smaller than normal summer orange crop with a disproportionate amount of second grade fruit due to adverse weather conditions.

I would hasten to add that Sunkist is not alone in TEA success stories. FAS has recently announced that twelve key horticultural commodities, all of which are receiving TEA assistance, posted sizable export gains in dollar value and tonnage during the first quarter of this fiscal year compared to the same period a year ago. In terms of dollars sales, the gains were as follows:

Percentage increase in export dollar sales of certain U.S. horticultural crops

[1st Quarter of Fiscal Year 86 vs. 1st Quarter of Fiscal Year 87]

	Percent
1. Grapefruit, fresh	39
2. Apples, fresh	61
3. Grapes, fresh	34
4. Pears, fresh	54
5. Canned peaches	87
6. Raisins	9
7. Prunes, dried	25
8. Onions, dried	62
9. Frozen french fries	43
10. In-shell walnuts	48
11. Almonds, prepared	141
12. Still wines	44

These export gains have been attributed primarily to the aggressive promotional efforts undertaken in connection with TEA.

The export sales value of all twelve horticultural commodities referenced above was $420 million for the first quarter of this fiscal year; this compared to a sales value of $318 million during the same period of last year, or an export increase of $102 million for twelve commodities. When one considers that all horticultural commodities, including the above twelve and several others, received a total of $45 million in TEA funds for the entire 1986 fiscal year, the first quarter gain of $102 million underscores this program's impressive cost/benefit ratio. Even greater gains are expected as the TEA program becomes more established.

A good deal of credit for these successes must go to FAS, which has worked vigorously with an extremely limited staff to develop program guidelines designed to ensure program efficiency and accountability. Under their guidelines, for example, program participants are being encouraged to put up substantial matching funds which may include in-kind contributions, to ensure and reinforce industry commitment to this program. Sunkist endorses this guideline.

Another issue being reviewed by FAS for which Sunkist is particularly concerned relates to the public release of TEA proposals and marketing plans submitted in connection with TEA requests. These documents in many instances contain carefully constructed marketing and advertising strategies developed at great expense to the applicant and involving millions of dollars in industry trade. Such documents should be treated as privileged, business confidential information and not released to the public. Were foreign competitors to obtain copies of the proposed marketing activities, a preemptive campaign or counteroffensive might be launched by competitors, thereby diluting the very purpose of the TEA program. This is a very real possibility, and one that should not be allowed to occur.

Another concern, this one paramount, is that the current TEA funding level needs to be enlarged if the program is to continue being effective. As the TEA successes have become known, scores of agricultural entities have come to USDA requesting TEA assistance. Most can legitimately identify unfair trade barriers abroad that need to be overcome. Current requests for fiscal year 1987 TEA monies come to approximately $190 million, $80 million in excess of the authorized amount.

Because TEA, like the Cooperator Program, is one of the few farm programs that has shown demonstrable, positive results for American agricultural exports, your Committee is encouraged to endorse increased TEA funding authority. This would not involve additional direct budgetary outlays, since the program is being administered through generic certificates for CCC-owned stocks, rather than through cash grants. Moreover, unlike many agricultural trade programs and proposals under

consideration by the 100th Congress, the TEA program is fully consistent with international obligations and is directed at market expansion, not market restriction.

In short, Mr. Chairman, the Cooperator and TEA programs together, if adequately funded and aggressively administered, are certain to yield the kind of agricultural export gains this Committee is dedicated to achieving. It should not be necessary to create new agricultural market development programs in an omnibus trade package. Your fullest support for these worthy programs is accordingly urged.

That concludes my remarks. I would be happy to take any questions the Committee might have on these programs or other agricultural trade proposals under consideration.

STATEMENT OF BILL BARTON, BONUS CROP FERTILIZER, ON BEHALF OF THE FERTILIZER INSTITUTE

Mr. Chairman, members of the committee, The Fertilizer Institute [1] appreciates the opportunity to express its views on the current state of America's agriculture.

We support the committee's efforts to find ways to stimulate U.S. exports. We recognize the government has a major role to counteract agriculture subsidies anywhere in the world that are a detriment to the American farmer. Regrettably, we feel many policymakers have given up the fight to take the necessary steps to make U.S. farm commodities competitive in international markets.

The driving forces behind the political debate in the 100th Congress to amend the 1985 Farm Bill are farm program costs and record commodity surpluses. Several proposals have come forth that would reduce supply, others that would attempt to increase demand. However, the merits of the debate for the fertilizer industry are overshadowed by the fate of the companies and employees who work in fertilizer businesses. Steps being taken now to remove acres from production to cut supply are devastating the U.S. fertilizer industry. The only debate in our industry today is who will survive to enjoy the economic benefits of any solution.

In our business, the old adage, "There's no money in fertilizer if there's no money in farming" has long been true. Today, however, when farmers are farming for the "farm bill and not for the marketplace, that old adage no longer applies. Recent USDA statistics bear out this fact. In 1986, net farm income was $44 billion, an all-time high, yet the fertilizer industry suffered a loss of $74 million on sales of $4.2 billion. (These figures are for the first nine months of 1986. Fourth quarter data are expected to continue the trend.)

The facts are plain. The result finds the fertilizer industry on the edge of economic ruin.

Implementation of the 1985 farm bill mandates a shrinking agriculture base for America, resulting in a major realignment in the fertilizer industry. The decline of our industry will only stop when policymakers decide on the size of agricuture which is wanted or acceptable in America. Charles Van Horne, Vice President, Bankers Trust, predicts by 1990, basic fertilizer producers in North America will consist of four or five phosphate producers, five potash producers and ten to fifteen nitrogen producers. This compares to 58 raw material producers in 1981. Even more alarming to rural America, Mr. Van Horne predicts the number of retail fertilizer dealers will be cut 50 percent by 1990 (at this time there are approximately 14,000 fertilizer dealers nationwide).

USDA has confirmed its intent to downsize American agriculture. In a recent letter to TFI President Gary Myers, Secretary Lyng stated:

"As you know, we would hope that acreage reduction programs could be eliminated in the longer term. However for the immediate future as long as we have record surpluses and income and price supports that encourage excess production, the only way we can avoid even larger surpluses and enormous government outlays is with acreage reduction programs."

USDA estimates in the Commodity Credit Corporation fiscal year 1988 budget that 68.6 million acres will be removed from production for crop year 1987. This could easily extend above 70 million acres. (We await the outcome of the number of acres enrolled in the 10-year conservation reserve program (CRP) and the paid land diversion (PLD) program for corn for 1987.)

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[1] TFI is a voluntary, non-profit association whose members represent approximately 95 percent of the domestic fertilizer production in the United States. TFI's membership includes: producers, manufacturers, traders, retail dealers and distributors of fertilizer materials. Its members are major shippers, receivers, and exporters of fertilizer and fertilizer materials and are a vital link in the nation's agriculture system.

The 1987 set-aside is the second highest in history, second only to the 78 million-acre reduction brought about by the 1983 PIK program. It is ironic that the Congress today accepts a set-aside for 1987 which is nearly identical to the 1983 PIK set-aside found then to be a terrible mistake and an economic disaster for rural America.

The downsizing of U.S. agriculture will continue just as the policy of paying farmers not to produce continues throughout 1990. By then, it is very likely that the set-aside will have increased to nearly 100 million acres—i.e. 45 million acres in the conservation reserve program and another 50 million required by the acreage reduction program and paid land diversion. Planted acreage in 1990 may be down to 265 million acres for all crops, a 25 percent drop from 1982 and down 14 percent from the 305 million expected acres to be planted in 1987.

In order to reduce budget outlays and stop building inventories, the political path of least resistance has been chosen: pay farmers not to produce. This may help farmers in the short term but does little for the rest of rural America, or for farmers, in the long term. Congress and the administration must remember that they are also responsible for the lives of all Americans in rural America, not just the farmer. Clearly, economic damage is being done to our infrastructure and will accelerate as additional acres are taken out of production.

The U.S. must provide the same effort to increase the demand for U.S. agricultural products as it does to curtail production. As this committee seeks ways to expand exports, we submit that two things must be done:

The price of U.S. export commodities must be made competitive.

The social aspect of farm income protection must be separated from production and the economy of the marketplace.

For all the agriculture to survive, the U.S. government must return the management of farms back to farmers. Farmers must make planting decisions based on the marketplace, not on benefits handed down by the federal government. The input industries—feed, seed, fertilizer, fuel oil and farm machinery dealers—the business backbone of rural America, should not have to shoulder the total cost of controlling supply to reduce costs and inventory levels.

The U.S. government must devote resources to increase the demand for U.S. agricultural products. In 1987, USDA will spend approximately $1 billion to store and handle corn, some of it the 1984 crop. In contrast, USDA's total expected export promotion for corn in PL 480, Titles I and II, is $23 million—40 times less. A better return on investment would be to reverse this emphasis.

The fertilizer industry, as do other Main Street businesses in rural America, expects its fate to be considered as Congress and USDA seek solutions to the current economic problems in agriculture.

Statement of the National Broiler Council

The National Broiler Council appreciates the opportunity to share our concerns about agricultural trade with the Subcommittee. Exports of broilers are essential to a healthy U.S. poultry meat industry. Unfortunately, current methods for dealing with export problems are ineffective. The inability to resolve trade disputes in a timely way is causing poultry exporters, like many other agricultural producers, to become more frustrated and disheartened with the existing trade laws.

In September 1981, the National Broiler Council, along with eleven other poultry associations filed a petition under Section 301 of the Trade Act of 1974, as amended. The petition challenged the legality under the GATT Subsidies Code of the European Community's export subsidies on poultry. The petition noted that while the U.S. had about 95 percent of the middle eastern market for poultry in the late 1960's, by 1981, the U.S. market share fell to just less than 1 percent.

As part of the U.S. Trade Representative's investigation under section 301, Brazil was brought into the case. Through their use of export subsidies, Brazilian poultry producers were able to gain market share in the Middle East at the expense of both U.S. and EC producers. Because there were two foreign entities benefitting from subsidies rather than one, the case became more complicated to resolve. The European Community refused to negotiate any resolution of the case unless the Brazilian government also take part in negotiations. The Brazilians, citing their status as a lesser developed country and their relatively low export subsidies compared to the EC, refused to seriously negotiate. Meanwhile, the United States government has done little to resolve this issue. Almost six years after the case was originally filed, it is no closer to reaching a resolution. U.S. exports to the Middle East remain at

relatively low levels, although the export enhancement program has helped to regain a small share of this market.

The National Broiler Council believes that changes must be made to section 301 of the 1974 Trade Act if the law is to be effective in resolving disputes in international trade. We think section 301 unwisely focuses almost exclusively on the resolution of these disputes through the General Agreement on Tariffs and Trade. It should be remembered that section 301, in addition to providing a procedure under which the government may resolve the disputes rising under international agreements, also authorizes unilateral action by the United States. The Congress should ensure that the Executive Branch is, in fact, willing to use the full range of section 301 remedies and act unilaterally if it receives no satisfaction under GATT dispute settlement procedures. If the Administration is unwilling or is not required to make full use of the remedies available, then section 301 will continue to be ineffective. Our trading partners will know that they can oppose the United States in the GATT—where cases seldom reach final resolution—and if successful, still be immune from unilateral retaliation. Thus, they can continue to subsidize without fear or reprisal.

The National Broiler Council believes that mandatory retaliation in certain circumstances should be provided for under section 301. Quite frankly, because of Brazil's debtor status, as well as its status as a lesser developed country, the Administration has been, and is likely to continue to be, quite reluctant to unilaterally retaliate against the Brazilians. Knowing this, Brazil refuses to rule out the subsidization of its poultry exports to third country markets. Also, with this knowledge, the EC will continue to have an excuse to maintain its export subsidies as long as it claims it is merely competing against Brazil. U.S. exporters will continue to be caught in the middle of an export subsidy war.

To its credit, the Administration has been willing to use the export enhancement program to increase pressure on foreign competitors. The export enhancement program has, in fact, been used for broiler exports and has helped to obtain the attention of U.S. broiler competitors overseas. However, the program has not yet resulted in getting either the EC or Brazil to return to the negotiating table to discuss the issues in a serious, good faith way. The National Broiler Council supports the continuation of the export enhancement program—and an increase the use of the program with respect to broiler exports—until our international competitors themselves eliminate the use of export subsidies.

Frankly, we are not optimistic that pursuit of the poultry complaint or other agricultural disputes through the existing GATT mechanisms will be either timely or effective. While we look forward to the new round of GATT negotiations on agriculture, the U.S. should not wait for the completion of that round of negotiations before taking action to enhance our agricultural trade. For this reason, we call for increased use of unilateral action under section 301, stricter deadlines for action under section 301, and greater pressure on our trading partners through the export enhancement program in order to improve exports of U.S. agricultural products.

U.S. poultry exporters seek a fair opportunity to compete in world markets. We have traditionally rejected government subsidies and other government intervention in the marketplace. We recognize, however, that our foreign competitors do not necessarily play by the rules. Until they do, we think there is an urgent need for the United States to improve section 301 and utilize the export enhancement program to benefit not just the poultry industry but other segments of the agricultural export industry.

II

100TH CONGRESS
1ST SESSION

S. 310

To amend the Export Administration Act of 1979 to promote the export of United States agricultural commodities and the products thereof, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 14 (legislative day, JANUARY 13), 1987

Mr. BAUCUS (for himself, Mr. BOREN, Mr. BURDICK, Mr. ZORINSKY, Mr. EXON, and Mr. HEFLIN) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Export Administration Act of 1979 to promote the export of United States agricultural commodities and the products thereof, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Agricultural Export Enhancement Act of 1987".

SEC. 2. EXPORT CONTROLS.

Section 6(m) of the Export Administration Act of 1979 (50 U.S.C. App. 2405(m)) is amended—

(1) by inserting "(A) except in the case of exports of agricultural commodities described in clause (B)," after "certified to the Congress";

(2) by redesignating clauses (A), (B), and (C) as subclauses (i), (ii), and (iii), respectively; and

(3) by inserting before the period at the end thereof the following: "; or (B) in the case of exports of agricultural commodities, including fats and oils or animal hides or skins, that—

"(i) the controls are imposed in connection with an emergency declared under section 202 of the International Emergency Economic Powers Act; or

"(ii) the United States has terminated diplomatic relations with the foreign country or countries to which exports are to be controlled".

SEC. 3. AGRICULTURAL EXPORT ENHANCEMENT PROGRAM.

(a) IN GENERAL.—Section 1127 of the Food Security Act of 1985 (7 U.S.C. 1736v) is amended to read as follows:

"SEC. 1127. AGRICULTURAL EXPORT ENHANCEMENT PROGRAM.

"(a) DEFINITIONS.—In this section—

"(1) BASE PERIOD.—The term 'base period' means the most recent 12-month period ending August 15th.

"(2) BONUS.—The term 'bonus' means agricultural commodities and the products thereof acquired by the Commodity Credit Corporation that are provided under this section to promote the export of a targeted commodity to a targeted country.

"(3) BONUS PERIOD.—The term 'bonus period' means the period during which a targeted country receives a bonus, as determined in accordance with subsection (f).

"(4) SECRETARY.—The term 'Secretary' means the Secretary of Agriculture.

"(5) TARGETED COMMODITY.—The term 'targeted commodity' includes—

"(A) wheat, feed grains, upland cotton, rice, soybeans, corn, sorghum, and dairy products produced in the United States;

"(B) any other agricultural commodity produced in the United States that is determined by the Secretary to be in surplus supply and that may be purchased with funds available under section 32 of the Act entitled 'An Act to amend the Agricultural Adjustment Act, and for other purposes', approved August 24, 1935 (7 U.S.C. 612c); and

"(C) products of the commodities and products described in subparagraphs (A) and (B) that are processed in the United States.

"(6) TARGETED COUNTRY.—The term "targeted country" means a country that is eligible to receive a bonus under subsections (c) and (d).

"(7) UNITED STATES MARKET SHARE.—The term 'United States market share' means the ratio of—

"(A) the quantity of a targeted commodity imported by a country from the United States; to

"(B) the quantity of a targeted commodity imported by the country from all foreign countries.

"(b) ESTABLISHMENT OF PROGRAM.—Notwithstanding any other provision of law, the Secretary shall formulate and carry out a program under which agricultural commodities and the products thereof acquired by the Commodity Credit Corporation are provided to United States exporters, users, and processors and foreign purchasers at no cost to encourage the export of targeted commodities to targeted countries.

"(c) DETERMINATION OF TARGET COUNTRIES.—

"(1) LIST.—Not later than September 1 of each year, for each targeted commodity, the Secretary shall

announce a list of the foreign countries that have shown the largest increase in the United States market share of the commodity, in order of the highest to lowest market share, by comparing—

"(A) the average United States market share of the commodity of each country during the base period; and

"(B) the average United States market share of the commodity of the country during the 36-month period ending the preceding August 15th.

"(2) ALLOCATION OF TARGETED COMMODITIES. The Secretary shall allocate the targeted commodities in the form of bonuses to the maximum possible number of countries on the list required under paragraph (1), in order of the highest to lowest market share, until the total quantity is allocated, preference to be given to those countries ranked highest on the list.

"(3) TRANSITIONAL BONUS.—Notwithstanding paragraphs (1) and (2) of subsection (d), the Secretary may provide a bonus to a country that is not targeted to receive a bonus under paragraph (2) if the Secretary determines that the bonus is necessary—

"(A) to open a major new market for a targeted commodity;

"(B) to counter an unfair trade practice of another country; or

"(C) to reward good traditional customer countries in which the United States market share is too high to allow significant market share improvement.

"(5) TREATMENT OF OTHER ASSISTANCE.—In determining the United States market share of a targeted commodity in the case of a foreign country that has received shipments of food aid under the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1921 et seq.), food aid under section 416 of the Agricultural Act of 1949 (7 U.S.C. 1431), or a bonus under this section, the Secretary shall exclude 50 percent of the total volume of such shipments from the total quantity of targeted commodities imported by the country from the United States.

"(d) ELIGIBILITY.—To be eligible to receive a bonus, a foreign country must—

"(1) be a traditional buyer of a targeted commodity;

"(2) during the base period, have a United States market share for the targeted commodity for which the country would receive a bonus of at least 10 percent;

"(3) maintain a trading relationship with the United States; and

"(4) during a bonus period, import at least as much of the targeted commodity from the United States as the country imported from the United States during the preceding fiscal year.

"(e) QUANTITY.—

"(1) IN GENERAL.—Except as provided in paragraphs (2) and (3) and subsection (g), a bonus provided to a targeted country during a fiscal year as the result of the United States market share of a targeted commodity shall equal one-third of the value of all imports of the commodity by the country from the United States during the base period.

"(2) TRANSITIONAL BONUS.—A bonus provided to a country under subsection (c)(3) during fiscal year 1988 to promote the export of a targeted commodity shall equal an amount determined by the Secretary of not to exceed 50 percent of the value of the imports of the commodity from all countries during the base period.

"(f) BONUS PERIOD.—

"(1) IN GENERAL.—Except as provided in paragraph (2), a bonus shall be distributed to a targeted

country during the fiscal year following the base period.

"(2) EXTENSION.—If a target country demonstrates to the Secretary compelling reasons why the country is unable to complete sufficient commercial purchases during the bonus period required under paragraph (1), the Secretary may extend the bonus period by not more than 6 months.

"(g) REDUCTION OR ELIMINATION OF BONUSES.—

"(1) CONDITIONS.—Subject to paragraph (2), the Secretary may reduce or eliminate a bonus provided to promote the export of a targeted commodity to a targeted country if—

"(A) the bonus would severely undercut the prevailing world market price for the commodity;

"(B) the bonus would have a negative effect on the volume of United States exports of the commodity;

"(C) the bonus would exceed the quantity of agricultural commodities and the products thereof acquired by the Commodity Credit Corporation that are available to carry out this section;

"(D) the increased imports of the commodity would cause disastrous impairment to the economy of the country;

"(E) the President has taken action against the country under section 301 of the Trade Act of 1974 (19 U.S.C. 2411) during the 24-month period preceding the bonus period;

"(F) trade sanctions have been imposed against the country by the United States; or

"(G) the United States market share for imports of the targeted commodity has significantly deteriorated at any time during the operation of this section.

"(2) MINIMUM REDUCTION.—The Secretary shall reduce or eliminate a bonus under paragraph (1) only to the minimum extent necessary to remedy the reason for the action.

"(h) ADMINISTRATION.—In carrying out the program established by this section, the Secretary—

"(1) shall take such action as may be necessary to ensure that the program provides equal treatment to domestic and foreign purchasers and users of United States agricultural commodities and the products thereof in any case in which the importation of a manufactured product made, in whole or in part, from a commodity or the product thereof made available for export under this section would place domestic users of the

commodity or the product thereof at a competitive disadvantage;

"(2) shall encourage increased use and avoid displacing usual marketings of United States agricultural commodities and the products thereof;

"(3) shall take reasonable precautions to prevent the resale or transshipment to other countries, or use for other than domestic use in the importing country, of agricultural commodities or the products thereof the export of which is assisted under this section; and

"(4) may provide to a United States exporter, user, processor, or foreign purchaser, under the program, agricultural commodities of a kind different than the agricultural commodity involved in the transaction for which assistance under this section is being provided.

"(i) INELIGIBLE COUNTRIES.—

"(1) ASSISTANCE.—If a country does not meet the eligibility requirements prescribed in subsection (d) for participation in the bonus program, the Secretary may provide to such country agricultural commodities and the products thereof acquired by the Commodity Credit Corporation to the extent necessary to help such country meet such qualifications in future years.

"(2) ANNUAL REVIEW AND ADJUSTMENT.—The Secretary shall review and adjust annually the quantity of commodities provided to a country under paragraph (1) in order to encourage such country to place greater reliance on increased use of commercial trade to meet the qualifications referred to in paragraph (1).

"(j) GREEN DOLLAR EXPORT CERTIFICATES.—

"(1) IN GENERAL.—In carrying out this section, the Secretary may make green dollar export certificates available to commercial exporters of United States agricultural commodities and the products thereof.

"(2) TERMS AND CONDITIONS.—The Secretary shall make such certificates available under such terms and conditions as the Secretary determines appropriate.

"(3) AMOUNT.—The amount of such certificates to be made available to an exporter may be determined—

"(A) on the basis of competitive bids submitted by exporters; or

"(B) by announcement of the Secretary.

"(4) REDEMPTION.—

"(A) IN GENERAL.—An exporter may redeem a green dollar export certificate for

commodities owned by the Commodity Credit Corporation.

"(B) VALUES.—For purposes of redeeming such certificates, the Secretary may establish values for such commodities that are different than the acquisition prices of such commodities.

"(5) ADMINISTRATION.—Such certificates—

"(A) may be transferred among commercial exporters of United States agricultural commodities; and

"(B) shall be redeemed within 6 months after the date of issuance.

"(k) IMPLEMENTATION.—The Secretary shall carry out the program established by this section through the Commodity Credit Corporation.

"(l) PRICE RESTRICTIONS.—Any price restrictions that otherwise may be applicable to dispositions of agricultural commodities owned by the Commodity Credit Corporation shall not apply to agricultural commodities provided under this section.

"(m) ADDITIONAL AUTHORITY.—The program established under this section shall be in addition to, and not in place of, any authority granted to the Secretary or the Commodity Credit Corporation under any other provision of law.

"(n) REPORTS.—

"(1) IN GENERAL.—Not later than 1 year after the date of enactment of this Act and each year thereafter, the Secretary shall prepare and submit a report on the effects of the operation of the bonus program carried out under this section, and the allocations under the program, to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate.

"(2) EFFECTS OF PROGRAM.—The report shall include an analysis of the effect of the bonus program on export sales, the economy of the target country, and the United States market share held by other major agricultural exporters in each target country.

"(o) QUANTITY OF AGRICULTURAL COMMODITIES.—

"(1) MINIMUM AND MAXIMUM QUANTITIES.—During each fiscal year that the program is in operation, the Secretary shall use agricultural commodities and the products thereof referred to in subsection (b) that are equal in value to not less than $333,000,000, and not more than $500,000,000, to carry out this section.

"(2) VALUE OF COMMODITIES.—For purposes of paragraph (1), the value of the commodities disbursed shall be determined by using the current market value of the commodities.

"(p) CERTIFICATES.—

"(1) FORM.—Agricultural commodities and the products thereof required to be provided under this section shall be disbursed in the form of certificates for commodities and products held by the Commodity Credit Corporation.

"(2) TYPE.—The Secretary may use either specific certificates for the specific targeted commodity, or generic certificates for other commodities, in carrying out this section.

"(q) TERMINATION OF AUTHORITY.—The authority provided under this section shall terminate on September 30, 1990.".

(b) APPLICATION OF AMENDMENT.—The amendment made by subsection (a) shall apply to each of the fiscal years 1988 through 1990.

SEC. 3. USE OF AGRICULTURAL EXPORT AUTHORITY.

(a) SENSE OF CONGRESS.—It is the sense of Congress that the President, Secretary of Agriculture, and other appropriate members of the executive branch, use the authority granted under sections 101, 102, and 103 of the Agricultural Trade Development And Assistance Act of 1954 (7 U.S.C. 1701, 1702, and 1703), section 5(f) of the Commodity Credit Corporation Charter Act (15 U.S.C. 714c(f)), section 4 of the Food For Peace Act of 1966 (7 U.S.C. 1707a(a)), section

416 of the Agricultural Act of 1949 (7 U.S.C. 1431), section 1127 of the Food Security Act of 1985 (7 U.S.C. 1736v), and this Act to promote and expand exports of United States agricultural commodities and the products thereof.

(b) REPORT.—

(1) IN GENERAL.—Not later than 1 year after the date of enactment of this Act, the Secretary of Agriculture and the Director of the Agency for International Development shall make and submit a report to the Committee on Agriculture of the House of Representatives, the Committee on Agriculture, Nutrition, and Forestry of the Senate, and the President on the potential to expand the use of authorities referred to in subsection (a) to promote the export of agricultural commodities and the products thereof to the countries referred to in paragraph (3).

(2) CONSULTATION.—The report required under paragraph (1) shall be prepared after consultation with the heads of government agencies, United States employees, and other interested parties in the countries referred to in paragraph (3).

(3) COUNTRIES.—This subsection shall apply to all countries that are traditional major recipients of food aid and agriculture export credit, including Mexico, Brazil, India, the People's Republic of China,

Nigeria, Zaire, the Philippines, Iraq, Saudi Arabia, Turkey, El Salvador, Guatemala, Egypt, Algeria, Yemen, Morocco, Jordan, Tunisia, Benin, Romania, and Yugoslavia.

SEC. 4. COOPERATOR BONUS PROGRAMS.

(a) ESTABLISHMENT.—Notwithstanding any other provision of law, the Secretary of Agriculture may—

(1) provide, to bona fide overseas market development cooperator organizations, agricultural commodities acquired by the Commodity Credit Corporation, to be used to expand overseas purchases and market development for United States agricultural commodities and value-added products; and

(2) supplement commodities provided under an agreement entered into pursuant to section 101 of the Agricultural Trade Development And Assistance Act of 1954 (7 U.S.C. 1701), with an additional bonus of commodities owned by the Commodity Credit Corporation in a quantity not to exceed 10 percent of the volume of commodities provided under the agreement.

(b) ELIGIBILITY.—To be eligible to receive agricultural commodities under this section, an organization must be recognized by the Secretary of Agriculture as a current or future bona fide market development cooperator organization for overseas sales.

(c) ADDITIONAL AUTHORITY.—

(1) CURRENT APPROPRIATIONS.—The commodities provided under subsection (a)(1) shall be in addition to current appropriations supporting market development activities carried out by bona fide overseas market development cooperator organizations.

(2) LOCAL CURRENCY.—Foreign currency generations under subsection (a)(2) shall be in addition to the local currency generations required under title I of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1701 et seq.).

SEC. 5. FOOD FIRST POLICY.

(a) FINDINGS.—Congress finds that—

(1) a far greater proportion of foreign assistance should be provided in the form of food aid, with the proceeds from the sale of food to be used to fund foreign assistance activities; and

(2) such a shift in policy would benefit United States agricultural producers and the recipients of foreign assistance.

(b) SENSE OF CONGRESS.—It is the sense of Congress that—

(1) in the case of each program established by the United States to provide food, economic and development aid to foreign countries, the head of the agency

responsible for administering the program should grant a greater proportion of total assistance under the program in the form of food aid;

(2) the proportion of the total amount of assistance provided under each program that is granted in the form of food aid should be increased until it is equal to at least 33 percent of the total amount, except in those cases in which the head of the agency determines that the action would replace private United States agricultural sales; and

(3) not later than October 1 of each year, the President should submit an annual report to Congress detailing the extent to which the foreign assistance programs of the United States are conducted in accordance with this section.

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II

100TH CONGRESS
1ST SESSION

S. 512

To promote the export of United States agricultural commodities and the products thereof, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 5, 1987

Mr. LEAHY (for himself, Mr. PRYOR, Mr. COCHRAN, Mr. MELCHER, and Mr. GRASSLEY) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To promote the export of United States agricultural commodities and the products thereof, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Agricultural Comptitiveness and Trade Act of 1987".

TITLE I—FINDINGS AND POLICY

SEC. 101. CRISIS IN AGRICULTURAL TRADE.

(a) FINDINGS.—Congress finds that—

(1) United States agricultural exports declined by more than 37 percent since 1981, from $43.8 billion per year to $27.5 billion per year;

(2) the United States' market share of agricultural commodities and products has dropped worldwide by 28 percent during the last 5 years;

(3) for the first time in 15 years, the United States incurred monthly agricultural trade deficits in 1986;

(4) the loss of $1 billion in United States agricultural exports causes the loss of 35,000 agricultural jobs and the loss of 60,000 non-agricultural jobs;

(5) the loss of agricultural exports threatens family farms;

(6) increasing exports is vital to the financial well-being of the farm sector and to increasing farm income; and

(7) a significant cause of the loss of United States agricultural exports are changes in world agricultural markets, including the addition of new exporting nations and innovations in agricultural technology.

(b) POLICY.—It is the policy of the United States—

(1) to increase agricultural exports;

(2) to recapture the market share lost by the United States in agricultural trade;

(3) to aggressively support programs to make United States exports more competitive abroad, including the agricultural export enhancement program established under section 1127 of the Food Security Act of 1985 (7 U.S.C. 1736v);

(4) to win back its traditional market share in agricultural commodities by providing credit and direct assistance to enhance exports on a market-by-market basis until that objective is achieved;

(5) to increase agricultural exports by challenging before negotiating panels of the General Agreement and Tariffs and Trade (hereinafter in this title referred to as "GATT") barriers to agricultural trade that are illegal under, or inconsistent with, the GATT; and

(6) to aggressively respond to changes in world agricultural market conditions and to increase exports and farm income.

(c) GENERAL NEGOTIATING OBJECTIVES.—

(1) In negotiating the agricultural provisions of the GATT, it is the objective of the United States—

(A) to increase United States exports by eliminating barriers to trade, including transparent and non-transparent barriers;

(B) to clarify the GATT rules for agricultural trade, which have been the source of considerable

confusion, disagreement, and conflict among member nations;

(C) to make the GATT a useful tool for a free and more open world agricultural trading system by resolving questions pertaining to export subsidies, market pricing, and market access.

(2) It is the policy of the United States—

(A) to reduce expensive agricultural support programs in a manner that ensures a strong domestic agricultural economy, increased exports, and the vitality of the family farm and is consistent with efforts to reduce the Federal budget deficit;

(B) to not reduce farm support programs unilaterally;

(C) to support farm programs at current or increased levels, if necessary, to promote exports and maintain a competitive world position; and

(D) to reduce price supports and export subsidies only if trading partners of the United States cooperate in a multilateral arrangement to reduce government agricultural expenditures.

(3) It is a primary negotiating objective of the United States to seek the elimination of barriers to agricultural trade from those nations that have unusually

large overall trade surpluses. It is the responsibility of such nations to reduce agricultural trade barriers.

SEC. 102. EUROPEAN COMMUNITY.

(a) FINDINGS.—Congress finds that—

(1) United States agricultural exports to the European Community have declined by $5 billion or 46 percent since 1980; and

(2) the agricultural policies of the European Community, including the system of variable levies and export subsidies of the Community, depend on extensive protection of domestic markets that raise agricultural prices in Europe above world levels.

(b) NEGOTIATING OBJECTIVES.—It is a primary objective of the United States in negotiating the next round of the GATT to seek reform of the agricultural policies of the European Community.

SEC. 103. JAPAN.

(a) FINDINGS.—Congress finds that—

(1) in 1985, the United States share of Japanese agricultural imports declined for 17 products and the United States market share of grains and feed fell by more than 28 percent;

(2) a major cause of the decline in United States market share are barriers to trade with Japan that are illegal under, or inconsistent with, the GATT;

(3) Japan maintains bans on rice, citrus, beef and other agricultural products that are illegal under the GATT;

(4) Japan maintains exceedingly high tariffs, as high as 40 percent, on agricultural products;

(5) State organized food monopolies prohibit competitively priced United States agricultural products from reaching Japanese consumers;

(6) the government of Japan refuses to grant any new licenses for dairy imports; and

(7) Japan has refused to reduced quotas on 12 commodities, forcing the United States to call for the formation of a GATT panel to investigate such quotas.

(b) NEGOTIATING OBJECTIVES.—

(1) It is the policy of the United States to increase competitive agricultural exports to Japan, including high value-added processed commodities.

(2) It is an objective of the United States in bilateral negotiations and in the upcoming round of GATT negotiations to seek the elimination of barriers to agricultural trade in Japan, specifically—

(A) to seek the elimination of non-transparent barriers to agricultural trade in Japan, including reform of the Japanese system of State organized food monopolies and standards barriers;

(B) to negotiate a reduction in the high level of Japanese tariffs on agricultural imports; and

(C) to seek the elimination of unfair restrictions on rice, citrus, beef, and other agricultural imports.

SEC. 104. KOREA.

(a) FINDINGS.—Congress finds that Korea maintains agricultural import bans, restrictive licensing practices, and extremely high agricultural tariffs.

(b) NEGOTIATING OBJECTIVES.—It is an objective of the United States to seek the elimination of the barriers to agricultural trade in Korea and to increase exports to Korea.

TITLE II—AGRICULTURAL TRADE

SEC. 201. DEFINITION.

As used in this subtitle, the term 'Service' means the Foreign Agricultural Service of the Department of Agriculture.

SEC. 202. COMMODITIES FOR COOPERATOR ORGANIZATIONS.

(a) AVAILABILITY.—The Secretary of Agriculture may make available to cooperator organizations commodities acquired by the Commodity Credit Corporation.

(b) USE.—A cooperator organization shall use commodities acquired under subsection (a) to establish demonstration projects designed to expand markets for United States agricultural commodities and products.

SEC. 203. PERSONNEL OF THE SERVICE.

(a) AUTHORIZED PERSONNEL LEVEL.—

(1) To ensure that the various agricultural export programs of the United States are carried out in an effective manner, the authorized number of personnel for the Service shall not be less than 850 full-time employees during each of the fiscal years 1987, 1988, and 1989.

(2) It is the sense of Congress that the personnel level authorized under paragraph (1) should make it feasible for employees of the Service to devote greater resources to developing markets for United States agricultural commodities and products.

(b) AGRICULTURAL ATTACHES.—

(1) An attache of the Service who is reassigned from abroad to the United States shall be assigned to a regional office of the Department of Agriculture, for at least the 180-day period beginning on the date of the reassignment, to counsel agricultural producers on means of increasing exports and agricultural market development and promotional activities.

(2) The Administrator of the Service shall ensure that at least 60 percent of the personnel resource time of agricultural attaches of the Service who are stationed abroad shall be devoted to market development

and promotional activities for United States agricultural commodities and products.

SEC. 204. CONTRACTING AUTHORITY TO EXPAND AGRICULTURAL EXPORT MARKETS.

(a) IN GENERAL.—The Secretary of Agriculture may contract with an individual for services to be performed outside the United States as the Secretary determines necessary or appropriate for carrying out programs and activities to maintain, develop, or enhance export markets for United States agricultural commodities and products.

(b) NOT EMPLOYEES OF THE UNITED STATES.—Such an individual shall not be regarded as an officer or employee of the United States under any law, including any law administered by the Office of Personnel Management.

SEC. 205. OFFICE OF INTERNATIONAL MARKET DEVELOPMENT AND EXPORT PROMOTION.

(a) DEFINITIONS.—As used in this section:

(1) The term 'Director' means the Director of the Office appointed under subsection (c).

(2) The term 'Office' means the Office of International Market Development and Export Promotion established under subsection (b).

(b) ESTABLISHMENT.—There is established, within the Service, an Office of International Market Development and Export Promotion to coordinate all market development, pro-

motional, export enhancement, export credit, and targeted export assistance programs, including such programs established under the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691 et seq.), section 416 of the Agricultural Act of 1949 (7 U.S.C. 1431), and title XI of the Food Security Act of 1985 (Public Law 99–198; 99 Stat. 1465).

(c) DIRECTOR.—The Office shall be under the direction and supervision of a Director, appointed by and reportable to the Administrator of the Service.

(d) DUTIES.—The Office shall—

(1) coordinate all programs referred to in subsection (b);

(2) create market development strategies;

(3) monitor market development activities of foreign countries and businesses;

(4) assess the effectiveness of current market development programs conducted by the United States;

(5) coordinate a program within the Service—

(A) to employ on a short-term basis private sector individuals who are experts in market development; and

(B) to permit employees of the Service to develop new market development expertise by working in the private sector;

(6) provide an annual report to Congress, in accordance with subsection (e);

(7) establish a quality monitoring unit, in accordance with subsection (f); and

(8) establish a program evaluation unit, in accordance with subsection (g).

(e) REPORTS.—Not later than September 30 of each year, the Office shall provide to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate a report that contains—

(1) in the case of the first annual report, a report on the potential for new market development abroad obtained through increased cooperation between the States and the Federal Government;

(2) recommendations for improving United States market development programs abroad and establishing new programs;

(3) an assessment of the impact of United States and foreign market development programs;

(4) a report on the progress of implementing the recommendations of the Office for improving market development programs;

(5) recommendations for improving current trade lead activities conducted by the Service, especially the distribution of leads and follow-up by the Service; and

(6) an evaluation of the effectiveness of agricultural trade offices and the need for additional staffing of the offices, establishment of new offices, and the shifting of existing offices to meet changing world markets.

(f) QUALITY MONITORING UNIT.—

(1) There is established, within the Office, a unit to monitor the quality of agricultural commodities exported from the United States.

(2) The unit shall—

(A) act as a liaison with the Federal Grain Inspection Service, private United States exporters, foreign governments, and United States agricultural attaches overseas;

(B) serve as the principle organization for receiving and responding to complaints about the quality of United States exports of agricultural commodities; and

(C) identify problems in foreign markets concerning the quality of United States commodities and ensure that notice of the problems is provided to relevant private sector and governmental entities for quick response and follow-up.

(g) PROGRAM EVALUATION UNIT.—

(1) There is established, within the Office, a unit to evaluate the overall effectiveness of the market development and promotional activities and programs of the Service.

(2) The unit shall be under the direction and supervision of a Director, appointed by and reportable to the Undersecretary for International Affairs and Commodity Programs.

(3) Not later than September 30 of each year, the unit shall provide to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate a report that describes the overall effectiveness of the activities and programs described in paragraph (1), including—

(A) a description of the goals and objectives of the Service for all market development activities, especially the cooperator program and the targeted export assistance program; and

(B) an assessment of the effectiveness of the programs, based on the goals and objectives.

SEC. 206. NEW MARKET DEVELOPMENT.

Not less than 50 percent of the increase in the amount of funds appropriated for the Service for fiscal year 1987,

over the amount of funds appropriated for the Service for fiscal year 1986, shall be used by the Service to create new markets for United States agricultural commodities and products in developing markets.

SEC. 207. TRADE SHOWS AND EXHIBITIONS.

(a) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated $8,000,000 for fiscal year 1987 for trade shows and exhibitions conducted by the Service.

(b) USE OF INCREASED FUNDING.—

(1) The increased amount of funds appropriated for the shows and exhibitions for fiscal year 1987, over the amount of funds appropriated for the shows and exhibitions for fiscal year 1986, shall be used—

(A) to increase the number of shows and exhibitions;

(B) to target the shows and exhibitions at newly developing markets;

(C) to provide more variety in shows and exhibitions; and

(D) to upgrade the quality of United States representations at shows and exhibitions such that the quality at least equals that of United States competitors.

(2) Not less than 50 percent of the increase in the amount of funds appropriated for the shows and exhibitions for fiscal year 1987, over the amount of funds appropriated for the shows and exhibitions for fiscal year 1986, shall be used to conduct shows and exhibitions in newly developing markets.

(3) Not less than 50 percent of the increase in the amount of funds appropriated for the shows and exhibitions for fiscal year 1987, over the amount of funds appropriated for the shows and exhibitions for fiscal year 1986, shall be used to increase United States exports of value-added agricultural products.

SEC. 208. PROGRAM MANAGEMENT AND SUPPORT.

There are authorized to be appropriated $10,970,000 for fiscal year 1987 for program management and support activities of the Service, including programs established under the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691 et seq.), section 416 of the Agricultural Act of 1949 (7 U.S.C. 1431), and title XI of the Food Security Act of 1985 (Public Law 99-198; 99 Stat. 1465).

SEC. 209. MARKET PROMOTION AND TRADE DEVELOPMENT.

(a) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated $30,000,000 for fiscal year

1987 for market promotion and trade development activities of the Service.

(b) VALUE-ADDED AND HIGH QUALITY PRODUCTS.—The Administrator of the Service shall use a portion of the increased amount of funds appropriated for the activities for fiscal year 1987, over the amount of funds appropriated for the activities for fiscal year 1986, to provide adequate staff for—

(1) the development of markets for high value-added products; and

(2) the improvement of the quality of agricultural commodities and products exported abroad.

SEC. 210. EXPORT MARKET DEVELOPMENT ADVISORY COMMITTEE.

(a) ESTABLISHMENT.—There is established, within the Department of Agriculture, an Export Market Development Advisory Committee—

(1) to review all agricultural market development and export enhancement programs and activities conducted by the United States; and

(2) to make recommendations to the Undersecretary for International Affairs and Commodity Programs of the Service for the improvement of the programs and activities.

(b) COMPOSITION.—The Committee shall be composed of 30 members that shall include—

(1) a member of the House of Representatives with expertise in such programs and activities, appointed by the Speaker of the House after consultation with the Minority Leader of the House;

(2) a member of the Senate with expertise in such programs and activities, appointed by the President Pro Tempore of the Senate, on recommendation of the Majority and Minority Leaders of the Senate;

(3) the Secretary of State;

(4) the Secretary of the Treasury;

(5) the Secretary of Commerce;

(6) the United States Trade Representative;

(7) the Undersecretary for International Affairs and Commodity Programs of the Service, who shall chair the Committee;

(8) the Administrator of the Agency for International Development; and

(9) other members appointed by the President, from among individuals in the United States agricultural export, production, transportation, and processing sectors.

(c) ADMINISTRATION.—

(1) The Committee shall be subject to the Federal Advisory Committee Act (5 U.S.C. App. 2).

(2) The Committee shall conduct meetings at least quarterly. The meetings shall be conducted in public. A full and complete record of the meetings shall be made available to the public.

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